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KRKA

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introduction

KEY ACHIEVEMENTS IN 2004

- In 2004, Krka d. d., Novo mesto (hereinafter referred also as “Krka” or “Company”) carried out its business operations in accordance with plans and the strategic orientation set. Net sales were recorded at 98 billion SIT, denoting a 15% increase over 2003 sales, and a 2% increase compared to planned sales figures. Net sales of the Krka Group totalled 113 billion SIT, marking a 17% increase over the previous year’s figures.

- This large increase in 2004 is also attributable to two new cardiovascular health products, amlodipine maleate and carvedilol tablets, the sale of which started in western Europe.

- 79.5 billion SIT worth of products have been sold in foreign markets, representing 81% of total sales, whereas at the level of the Krka Group, the share is 78%.

- The largest, 56% growth was recorded in the region of West Europe and Overseas Markets.

- The net profit of the Krka Group was 14,660 million SIT, representing a 39% growth.

- The net profit of Krka was 14,101 million SIT, a result that meets the expectations and plans. Compared to the previous year’s figures, the result signifies an increase of 28%.

- Based on the resolution adopted at the 9th shareholders’ meeting held in July 2004, a dividend was paid out, e.g. 1,200 SIT (gross) per share.

- The harmonisation of regulatory requirements with the European Union legislature in central and eastern European markets required an increased pace for concluding registration procedures. In the past year, we acquired 365 marketing authorisations for 576 forms in our traditional markets, and an additional 39 marketing authorisations in the western European markets.

- For investment activities and investments, including an upgrade of our information system, the Company allocated 19.6 billion SIT, continuing the large investment trend of 2003.

- The quotation price per share at the Ljubljana Stock Exchange reached 84,482 SIT on 30 December 2004.

BUSINESS HIGHLIGHTS

	Krka, d. d., Novo mesto		Krka Group	
	2004	2003	2004	2003
Total net sales in million SIT	97,978	85,388	113,317	96,749
EBITDA[1] in million SIT	26,189	22,750	28,949	24,018
Margins	26.7%	26.6%	25.5%	24.8%
EBIT[2] in million SIT	17,585	14,928	17,390	14,440
Margins	17.9%	17.5%	15.3%	14.9%
Net profit in million SIT	14,101	11,022	14,660	10,563
Margins	14.4%	12.9%	12.9%	10.9%
R & D expenses in million SIT	8,373	7,003	8,373	7,328
% of net sales	8.5%	8.2%	7.4%	7.6%
Investments in million SIT	19,639	19,238	21,075	21,634
Fixed assets in million SIT	103,768	91,978	104,739	94,217
Current assets in million SIT	47,176	52,271	49,216	51,938
Equity in million SIT	106,711	96,504	106,416	95,622
Provisions in million SIT	12,025	13,344	12,204	13,513
Long-term liabilities in million SIT	13,787	4,509	14,596	5,821
Short-term liabilities in million SIT	17,186	28,543	19,501	30,336
Number of employees (year end)	3,648	3,528	4,781	4,522
RATIOS				
Net profit/ Revenues	13.3%	12.3%	12.1%	10.4%
Return On Equity[3] (ROE)	13.9%	11.9%	14.5%	11.4%
Return On Assets[4] (ROA)	9.5%	8.1%	9.8%	7.7%
Liabilities/Equity	0.290	0.342	0.320	0.378

EXCHANGE RATES	2004	2003
USD (average)	192.318 SIT	207.115 SIT
USD (31 December)	176.243 SIT	189.367 SIT
EUR (average)	238.885 SIT	233.725 SIT
EUR (31 December)	239.743 SIT	236.690 SIT

SHARE INFORMATION (Krka Group)	2004	2003	2002	2001
Total number of shares	3,542,612	3,542,612	3,542,612	3,542,612
Earnings per share in SIT	4,130	2,970	3,116	2,405
Dividend per share in SIT	1,200	1,050	950	700
Share price at the end of year in SIT	84,482	52,188	42,458	28,711
Price/earnings ratio	20.5	17.6	13.6	11.9
Market capitalisation in million SIT	**299,289**	**184,882**	**150,414**	**101,712**

[1] Profit from ordinary activities + financial expenses – financial revenues + amortisation/depreciation and operating expenses from revaluation of intangible and tangible fixed assets
[2] Profit from ordinary activities + financial expenses – financial revenues
[3] Net profit/ average equity balance in the year
[4] Net profit/ average assets balance in the year
[5] Net profit of Krka Group majority shareholders / average number of shares issued in the period

SIGNIFICANT EVENTS

- At the July meeting of the Supervisory Board, personnel changes in the senior management were adopted. Starting on 1 January 2005, Jože Colarič, who was up to that point the Deputy to the President of the Management Board and the Chief Executive and Director of Marketing and Sales, was appointed the new President of the Management Board and Chief Executive for a five-year term.
- The Supreme Court of the Republic of Slovenia reported that the dispute between Merck & Co., Inc., and Krka, d. d., Novo mesto, regarding enalapril, was finished in Slovenia. Somewhat later, the patent dispute regarding lovastatin with Merck & Co., Inc., was resolved in Krka's favour.
- Amlodipine and carvediol tablets were successfully introduced on the western European markets (Germany, Great Britain, the Netherlands, Scandinavia, etc.)
- Construction of Synthesis 4, a plant for production of the active pharmaceutical ingredients, one of Krka's biggest investments with an estimated budget value of 17 billion SIT, continued at a brisk pace.
- The 50^{th} anniversary of the Company was celebrated with a ceremonial academy.
- Also, within the framework of celebrating the 50^{th} anniversary, we organised a symposium for Slovenian doctors and pharmacists, called The Doctors' Orchestra for the Symphony of Life. It was conducted as a discussion involving 11 top experts from various fields of medicine.
- We inaugurated the new representative offices in Bosnia and Herzegovina.
- At the end of the year, we registered the Krka Sverige AB company, which will market our products in Scandinavia.
- We awarded the 34^{th} Krka Prizes.
- For the third year in a row, we received the right to use the POR logo (Responsible Care programme).
- Our collection of art, with which we contribute to the preservation of Slovenian cultural heritage, was presented in the monograph "Krka, likovna zbirka".
- Within the celebration of our 50^{th} anniversary, we published a monograph on our company, titled "Knjiga o Krki" (The story of Krka).
- Awards we received in 2004: international award of the British publishing and consulting company Nicholas Hall, London, for our Bilobil marketing campaign; IR magazine award for excellence as the best Slovenian company in the field of investor relations; silver award EFFIE for the Russian Bilobil marketing campaign; award for our contribution to the development of broad social community by the Chamber of Commerce of Slovenia for our 50^{th} anniversary.

SIGNIFICANT EVENTS AFTER THE ACCOUNTING PERIOD

- In the first quarter of 2005, Krka successfully implemented its promising sales plans.
- The new President of the Management Board and Chief Executive, Jože Colarič, officially started his five-year term on 1 January 2005.
- The new SAP information system has been implemented.
- The Supervisory Board of Krka, named Zvezdana Bajc as Member of the Management Board on 29 March 2005. Her term will expire at the end of 2009.

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Health is a value
we should cherish.
That's our mission.

STATEMENT BY THE PRESIDENT OF THE MANAGEMENT BOARD

Esteemed shareholders and business partners,

On 1 January 2005, the Supervisory Board entrusted me with the function of the President of the Management Board and Chief Executive. I accepted the leadership of the company with a great deal of optimism, as in the past few years Krka grew to be a successful international generic pharmaceutical manufacturer. My vision and the vision of the Management Board will be directed towards the future for the duration of my term, a future that we will build on clearly defined perspectives. The strategy for the coming period, which was accepted by the Management Board in November 2004 and confirmed by the Supervisory Board, was based on two major goals: to further enhance our achievements and to define the strategic and organisational development of Krka.

There is no doubt that pharmaceutical industry is one of those branches of the industry that feels very pronounced effects of globalisation both in production and in sales. The competition in the global market is increasing year by year. We bear witness to numerous changes we cannot avoid. Globally, the pharmaceutical industry is still subject to mergers and strategic partnerships. Both the quantity and quality of pharmaceutical products are increasing, while medical and patent legislation is changing.

Despite all this, Krka has shown continuous growth in the past few years and is a successful competitor in this branch. We were successful in the business year of 2004. Krka concluded the year with 98 billion SIT net sales, whereas the Krka Group sold 113 billion SIT worth of products and services. The sales increased by 15%, compared to 2003. Krka recorded a net profit of 14.1 billion SIT, a 28% increase compared to 2003, whereas the Krka Group recorded a net profit of 14.7 billion SIT.

The results show a high degree of quality, adaptability, innovativeness, determination and, as a consequence of all these, efficiency. Our achievements were made possible by carefully weighted decisions and by the serious and responsible work of all who are in any way connected with Krka. Not to be overlooked here is the commendable behaviour of our partners, expert support by various institutions and a large number of loyal customers.

By intensively investing in development, production capabilities and marketing and sales at home as well as abroad, we continue with our path as a successful generic company. We have a great wealth at our disposal – numerous and diverse markets and products. The primary focus of the Krka Group remains the pharmaceutical products, including prescription pharmaceuticals, self-medication products and animal

Jože Colarič

health products. We also have a cosmetic programme, although it was reduced in size considerably last year, and health resort activities and tourism.

Our plans for 2005 are optimistic. I am sure this year will be remembered as one with a quality business growth, increased added value, cost competitiveness and innovativeness. As always, we will try to efficiently control all business processes. We began introducing change into the organisation of various business functions of our company last year. We are fully aware that too much satisfaction with what we have achieved does not lead to growth and that there are many improvement opportunities as well as opportunities to increase our efficiency in all areas, which will surely be reflected in our business results.

It is our business results that are the most convincing proof of the vision we have in Krka, of the fact that we can choose correct strategic course, and of the fact that we can anticipate the events in business environment and react to them in a correct and timely manner. I therefore believe that Krka's shareholders will find that investing in our company is a secure investment. The expected rise in our success indicators is a good sign for growth of Krka's assets, which means a rise in the market value of our shares, a stable dividend policy and thus an increase in our shareholders' wealth.

I am convinced that with the knowledge and enthusiasm of our organisation, we will be able to successfully overcome challenges that are presented by the increasingly fast changes in the economic environment and that we will continually increase our business success by increasing our competitiveness. I believe that Krka will continue to be a successful international pharmaceutical company we can all trust: employees, customers, shareholders and the social community.

Jože Colarič
President of the Management Board and
Chief Executive

THE REPORT OF THE SUPERVISORY BOARD

A report on the process and result of the verification of the Annual Report 2004 for Krka, d. d., Novo mesto and the Krka Group, and the proposal to use the accumulated profit

I.

According to Article 274 of the Companies Act, the Supervisory Board is obliged to yearly verify the prepared Annual Report of the company and the proposal to use the accumulated profit, which are submitted to the Supervisory Board by the Management Board. The result of the verification is to be presented as a written report at the annual meeting of the Company. The Supervisory Board is obliged to indicate in the report in what way and to what extent, they verified the Company's management during the year and take a view of the independent Auditor's Report. At the end of the report, the Supervisory Board is obliged to state its comments and whether it approves the Annual Report. If the Supervisory Board approves the Company's Annual Report, the report is endorsed.

II.

In accordance with the third paragraph of Article 256 of the Companies Act the Management Board of Krka, d. d., Novo mesto submitted the Annual Report for Krka, d. d., Novo mesto and the Krka Group for the year 2004 together with the Auditor's Report, to the Supervisory Board on 4 April 2005, as well as presented in the time specified by the Supervisory Board, the proposal to use the accumulated profit.

On grounds of the submitted Annual Report, proposal to use the accumulated profit and other materials the Supervisory Board of Krka, d. d., Novo mesto, comprised of Bojan Dejak, Borut Jamnik, Janko Kastelic (Deputy President), Mojca Osolnik Videmšek, Janez Prijatelj (President), Stanislav Valant (all representatives of the shareholders), and Sonja Kermc, Mihaela Korent, Miroslav Kramarič, Darinka Kure, Boris Petančič and Božena Šuštar (all representatives of the employees) has performed all statutory verifications and made a report for the general meeting on the following topics:

- Verification and approval of the Annual Report 2004 for Krka, d. d., Novo mesto and the Krka Group and the result of this verification,
- Verification of the proposal to use the accumulated profit,
- The Supervisory Board's view of the independent Auditor's Report,
- Way and extent of the verification of the Company's management during the year,
- Evaluation of the Company's operations and development and
- Realisation of the many years' planned personnel policy of the Supervisory Board

III.

Verification and approval of the Annual Report 2004 for Krka, d. d., Novo mesto and the Krka Group

In accordance with the law the Supervisory Board of Krka, d. d., Novo mesto checked the Company's Annual Report for 2004 from the viewpoint of form and content.

The checking was divided into four separate phases. It started before the actual submission of the Annual Report to the Supervisory Board and depended on the process of its creation in the sense of content and timeliness, and on the necessary actions after submission to the Supervisory Board.

During the first phase in February 2005, the Supervisory Board initially discussed unaudited financial statements, whereas during the second phase at the end of March 2005 they, in the presence of an auditor assigned at the annual meeting, discussed the audited financial statements of Krka, d. d., Novo mesto and the Krka Group and the draft of the Annual Report 2004 for Krka, d. d., Novo mesto and the Krka Group.

In accordance with the Paragraph 3, Article 256 of the Companies Act, the Management Board delivered the Annual Report in its final form, which also included some suggestions of the Supervisory Board, produced when discussing its draft, together with the Auditors' Reports, to the Supervisory Board right after its completion, on 4 April 2005, which marked the beginning of a month in which the Supervisory Board had to make their report and submit it to the Management Board.

During the third phase on 12 April 2005, the audit committee of the Supervisory Board, in the presence of the auditor, verified the form and contents of the submitted Annual Report and, on the grounds of detailed discussions of the Annual Report and the independent Auditor's Report, expressed their baseline for the endorsement of the Supervisory Board's report. The Annual Report 2004, together with resolutions and proposals of the audit committee, were discussed at the meeting of 25 April 2005, by the Supervisory Board, which represented the fourth and last phase of the verification.

During the process of discussing and agreeing the Annual Report 2004 Krka, d. d., Novo mesto and the Krka Group the Supervisory Board ascertained that the Annual Report had been well prepared. It contains all legally prescribed and compulsory constituents of a Company's Annual Report: the financial statements of Krka, d. d., Novo mesto and the consolidated financial statements of the Krka Group (Balance Sheet, Income Statement, Cash Flow Statement, and Statement of Changes in Equity with an appendix to these statements, notes and breakdowns) as well as a well prepared and comprehensive financial report with all explanations, reviews and required disclosures.

As for the financial statements, the Annual Report 2004 for Krka, d. d., Novo mesto and the Krka Group is prepared in accordance with the valid Slovenian Accounting Standards (SAS), which describe and define technical instructions, methods and accounting studies that, above all, influence legally prescribed financial statements for the Company's external requirements. According to the European Union's regulation on the use of international accounting standards for companies whose securities are quoted on the organised security markets within the EU, including 2005, Krka is going to prepare financial statements also in conformity with the International Financial Reporting Standards. Notes on the financial statements in the Annual Report disclose information about accounting policies and methods of evaluation, breakdown of synthesised items of financial statements for easier analysis and understanding, and deliver all prescribed and other necessary disclosures. The Annual Report provides a comprehensive review of all the Company's operations, position and development and, in accordance with Article 66 of the Companies Act, comprises data on relevant transactions, planned development, investments, prospects, the Company's activities in the field of research and professional development, and companies and representative bodies abroad. The report also contains data on value management for owners, risk management, analysis of the Company's operations and the statement on the observance of the code of public joint stock company management.

After completion of the discussion and verification, the Supervisory Board made no comments on the Annual Report 2004 for Krka, d. d., Novo mesto and the Krka Group and hence endorsed it. The Supervisory Board established that the Annual Report was well prepared as a whole and is therefore understandable and provides the owners and the public with an insight into the conditions and operational results in 2004 and Krka's planned development and operations in the following years.

With approval at the Supervisory Board's session on 25 April 2005, the Annual Report 2004 for Krka, d. d., Novo mesto and the Krka Group was endorsed in accordance with the law.

IV.
Verification and delivery of the proposal to use the accumulated profit

In accordance with the law, and within the due time, defined by the Supervisory Board, the Management Board furnished the Annual Report with the proposal to use the accumulated profit for the year 2004, which is, after making statutory reserves from the net profit and allocating a part of the net profit (after its compulsory use) to other revenue reserves, represented by the rest of the net profit, net profit carried forward and decrease in revenue reserves. Thus the accumulated profit amounts to 16,559,900,681 SIT.

The Supervisory Board examined the proposal to use the accumulated profit and established that it contains all data provided by the law and that it is suitable and realistic given the Company's operations and stable situation.

The Supervisory Board determined that the Management Board's proposal to use the accumulated profit corresponds to the Company's achieved operational results and situation both as regards the proposed dividend to the value of 1,400 SIT gross per share, which is accordingly higher than in 2003, 2002 and 2001 (when it was 1,200 SIT, 1,050 SIT, and 950 SIT) and follows the policy of a moderate yearly increase in the dividend value, registered the Krka's Strategy 2005-2008, and proposed allocation to other revenue reserves from profit (5,886,801,099 SIT), carried forward to the following year (5,886,801,099 SIT) and for other purposes – the Supervisory Board's participation in profit (54,368,483 SIT).

Based on this verification and preliminary alignment with the Management Board, the Supervisory Board resolved that there are no impediments to submit the proposal to use the accumulated profit together with this report and in compliance with Paragraph 4, Article 282 of the Companies Act, to the general meeting of Krka, d. d., Novo mesto for adoption.

V.
The Supervisory Board's viewpoint of the independent Auditor's Report

In accordance with the Paragraph 2, Article 274 of the Companies Act, the Supervisory Board also discussed the Auditor's Report and opinion on the audit of financial statements for the financial year 2004 for Krka, d. d., Novo mesto and the report on the audit of consolidated financial statements for the Krka Group for the same period. Prior to the year-end of 2004 and the preparation of the Annual Report and the independent Auditor's Report, the audit committee of the Supervisory Board at a special session informed the auditor of the recommendations for a special, or in-depth, overview of individual areas in the auditing process and the preparation of reports on these overviews. The audit committee of the Supervisory Board discussed the auditor's reports together with the Company's Annual Report and the auditor's regular reports. Apart from financial statements the auditor examined and verified the management report of Krka, d. d., Novo mesto and the Krka Group and when giving the independent Auditor's Report sent a letter to the Company's Management Board, who delivered its contents to the audit committee.

Similarly to recent years, both Auditor's Reports were issued by the audit company KPMG Slovenija, d. o. o., which was appointed at the annual meeting. As early as in 2002, KPMG superseded the auditing team of Krka and in 2004 they also superseded the authorised audit partner, as well as the authorised auditor and partner's manager. The majority of the companies in the Krka Group were audited by local subsidiaries of the KPMG audit company, whereas some of the companies were still audited by other audit firms.

The Auditor additionally presented its work and reports both at special sessions of the Supervisory Board's audit committee and the sessions of the Supervisory Board. Upon demand of members of the audit committee and the Supervisory Board the auditor provided some additional answers and explanations.

With regard to the Auditor's Report, the Supervisory Board determined that the Auditor's Reports were prepared in accordance with the International Financial Reporting Standards and professional norms and therefore made no comments on them. Hence the financial statements of the Company and the Krka Group give a true and fair view of the financial position of the Company and the Krka Group as at 31 December 2004, the results of its operations, its cash flows and the changes in equity in conformity with Slovenian Accounting Standards. Furthermore, it was also determined that the management reports were in accordance with the audited financial statements of Krka, d. d. and the Krka Group.

VI.
Way and extent of the verification of the Company's management during the year

At the end of 2003 and the beginning of 2004, the Supervisory Board first discussed Krka's operational plan for 2004 and made corresponding recommendations and suggestions to the Management Board. Considering the contents and objectives of Krka's endorsed operational plan and Development Strategy for 2001-2005, the Supervisory Board followed the realisation of the fixed targets through exhaustive, regular, quarterly reports from the Management Board on the Company's operational results and conditions and thus regularly checked Krka's performance and the Management Board's work in running the company. At the end of 2004 the Supervisory Board thoroughly discussed Krka's Development Strategy for 2005-2008 and agreed with it.

In 2004 the Supervisory Board performed its legally defined function of managing the Company's business and other tasks, and exert authority in this area mainly at the sessions of the Supervisory Board and its special committees. It held seven sessions, of which six were regular and one by correspondence, attended by the members listed at the opening of this report, who were elected at the Company's general meeting of 19 June 2001. The four-year term of office for the Supervisory Board's members expires in June 2005.

Several years ago, for the purpose of thorough and regular follow-up and examination of achieving operational results, the Management Board's work and carrying out some other supervisory functions, the Supervisory Board appointed the audit committee. It is a permanently operating body of the Supervisory Board, comprised of six members, whose standing orders were adopted by the Supervisory Board. The audit committee, presided over by Janko Kastelic, had three sessions in 2004. They were mainly intended to supervise the operations in 2003, study and discuss some additional questions addressed to the auditor, and set up an internal auditing department within Krka and define the contents and the programmes of its assignments. At two of the sessions held in 2005 the audit committee, in collaboration with the authorised Auditor, the Supervisory Board's President and invited members of the Management Board, further studied particular areas of operations and the Company's statements for 2004, performed required verification, wrote an analysis for the Supervisory Board's report, examined the report from the internal auditing department for 2004 and the programmes of its assignments, and reported on it at the Supervisory Board's session.

In 2004, the Supervisory Board also formed a three-member human resource committee headed by Borut Jamnik. At four sessions held in 2004 and at the beginning of 2005, the human resource committee prepared the drafts of acts, resolutions and contracts on rewarding the Management Board, and discussed and adopted relevant personnel proposals described hereafter.

On the grounds of detailed and timely reports of the Management Board, its answers and explanations, materials, analyses, conducted also upon special requirement, and other data on the Company, the Supervisory Board was provided with a thorough overview of the operational fluctuation and indicators, sales' fluctuations according to activities, regions and products, and the Company's financial statements. The Supervisory Board is aware of the Company's stable position as a generic company in the global pharmaceutical industry, earned by developing new generic products, investing and successful adjusting its product portfolio to the requirements of the global market. Thanks to required reports prepared by the Management Board, the Supervisory Board is periodically informed also of global data on the operations of other similar producers of generic drugs in the global market and the benchmarking of Krka's operations.

As per agendas for sessions in 2004, the Supervisory Board discussed (adopted resolutions, viewpoints, warnings or proposals about them, or supervised the Company's operations through them) the following most important areas:

- discussing reports, statements, disclosures and other materials related to the preparation, verification and endorsement of the Annual Report for 2003 and the evaluation of the Company's operations, namely:
  - financial statements of Krka, d. d., Novo mesto and the Krka Group for 2003,
  - Auditor's Report on the audit of financial statements of Krka, d. d., Novo mesto and the Krka Group for 2003, together with the adoption of a viewpoint of the Auditor's Report,
  - verification, approval and endorsement of Krka's Annual Report for 2003,
  - preparation and endorsement of the Supervisory Board's report to the Company's Management Board on the results of verification of the Company's Annual Report for 2003 and the Management Board's proposal to use the accumulated profit,
  - delivery of the Management and Supervisory Board's proposal to use the accumulated profit from 2003 to the Company's annual meeting.
- discussing the operational plan for Krka, d. d., Novo mesto and the Krka Group for 2004;
- discussing quarterly reports from the Management Board on the Company's operations, achieved results and executing the annual plan for the periods January-March, January-June, January-September, and the evaluation of the period January-December 2004;
- monitoring the realisation of performance indicators defined by Krka's Development Strategy for 2001-2005 compared to circumstances and operational results in 2004, currency risk management and other operational risk management, circumstances on the world markets, according to anticipated investment effects and effects from investing in development and personnel, and warnings to the Management Board in order to take necessary actions for firm management of all operational costs, especially labour costs;
- adopting a proposal for the annual meeting to nominate the Auditor for 2004 and asking the Management Board to invite tenders suitable for auditing such large systems as Krka, and discussing submitted tenders;
- reviewing and discussing the draft summary of the semi-annual report 2004 earmarked for public notification;
- regular monitoring of the rate of Krka's shares, Krka's ownership structure, and the situation of own shares fund in accordance with the Rules for own shares funds;
- comparing Krka's operational results with selected pharmaceutical companies for 2003 and later on for the first semester in 2004;
- establishing and appointing a human resource committee and adopting its standing orders;
- adopting of the Rules on rewarding the Management Board, defining the value of reward for members of the Management Board for the first semester in 2004 and for the year 2004, and accepting annexes to contracts of employment in the Company's Management Board;
- information relating to the balance of claims submitted by foreign companies against Krka;
- discussing the evaluation of operations in 2004 and starting points for the operational plan for 2005;
- discussing Krka's Development Strategy for the period 2005-2008 with the consent of the Supervisory Board;
- discussing the feasibility study for the Synthesis 4 project, reports on the effects of Krka's more substantial investments (Notol, Krka Polska) and information about launching investments (Krka-Rus, Beta Šentjernej);
- adopting the foundation charter for the internal auditing department within Krka, d. d., Novo mesto and its standing orders, the department's work report for 2004, programme of internal auditing for 2005, and medium-term work programme up to 2008;
- information given by the President of the Management Board about stopping certain production programmes of Krka Cosmetics (including WD 40);

- adopting the proposal made by the President of the Management Board about making an agreement on cessation of function as of 31 December 2004;
- appointing the President of the Management Board as of 1 January 2005, with the approval of the contract of employment in the Management Board of Krka, d. d., Novo mesto;
- draft of the roadmap and sessions of the Supervisory Board for the period November 2004 – June 2005 and
- miscellaneous.

VII.
Evaluation of operations and development

Similarly to the previous year, when preparing the operational plan and throughout the year the Supervisory and Management Boards established that, given the changed and harsher circumstances, Krka would achieve its business targets only through much greater efforts and successful adjusting to world markets, currency fluctuation, especially USD, managing all other risks, investing in production, expertise, development and personnel, and managing costs, especially labour costs.

Considering data on sales growth, preservation of traditional markets, and particularly the increase in sales in western Europe, actions to reduce dependence on the current and future currency risks, and bearing in mind the aforementioned and other warnings given by the Supervisory Board along with its demand made to the Management Board to inform the former about risk management in all areas of operations, the Supervisory Board evaluated Krka’s operations during 2004 as very successful given the conditions that affected them in individual periods of the year. At sessions in 2004 the Supervisory Board also established that Krka disposes of successful implementation of planned development and ambitious investment activities. The latter was, after building the plants in Poland and Novo mesto, most prominently demonstrated by opening plants in Russia and Šentjernej and nearly finishing the plant in Zagreb, which is, together with the investments that have already been started and those planned (especially in the plant for producing active pharmaceutical ingredients known as Synthesis 4), all going to contribute to positive results in future years.

In 2004, Krka’s global operations were in accordance with the adopted plans and strategic objectives. One of the most prominent results was made in sales growth demonstrated by a 15% sales growth in Krka, d. d., Novo mesto and a 17% growth in the Krka Group compared to 2003. The increase in growth is a sign of continuing the persistent growth in previous years. Apart from maintained and increased growth in traditional markets, the increase was considerably high, as much as 56%, in the region of western Europe. The net profit of the Krka Group achieved a 39% growth, whereas that of the Krka company recorded a 28% growth, which is a very good result given the ever sharper competition, currency and other risks, and other circumstances defining market conditions.

In 2004, Krka continued to make substantial investments in development and creating conditions for promising opportunities in the future; 20 billion SIT was earmarked for this purpose. In the same way, investing in human resources continued, other operational and strategic objectives were pursued or reached, and relevant new products were registered. The uniform rate of the Company’s share also persistently rose in 2004 and was 84,482 SIT at the end of the year.

According to the Supervisory Board, these facts provide realistic grounds to believe that Krka is going to remain a sound company that makes daily and planned efforts to adjust to changed circumstances and ever sharper competition, or a company that continuously develops and effectively manages known and anticipated operational and other risks. That is why Krka successfully meets the expectation of its owners, assures them solid current return, and, according to the Company’s adopted strategy and unbiased assessments, represents a safe and promising investment in the future as well.

Regardless of solid operational results in 2004 and positive operational and development fluctuations, the Supervisory Board continues to direct special attention to indispensable benchmarking with competitive pharmaceutical companies in the fields of sales, costs, return on investments, and other items. The Management Board, which supports the Supervisory Board's policy, is required to regularly examine adopted strategic objectives and their timely adjustment to market changes, harsh competition, currency risks, restriction measures, taken by national health insurance in the field of drug consumption, and other operational risks. The Supervisory Board established that positive fluctuations from 2004 would continue in the beginning of 2005, since Krka's operations in the first quarter of this year again proved better than in the same period last year.

VII.
Realisation of the many years' planned personnel policy of the Supervisory Board

In 2002, the Supervisory Board appointed a new Management Board of Krka, d. d., Novo mesto due to the termination of office. According to authorisations provided by Article 250 of the Companies Act, Miloš Kovačič was appointed President of the Management Board and Chief Executive of the company, Jože Colarič was appointed Deputy to the President of the Management Board and Deputy to the Chief Excutive of the company, and Janez Poljanec and Dr Aleš Rotar were appointed members of the Management Board, all for the period of five years starting on 31 July 2002. At that time, and according to the planned and already begun generation change in Krka's management team, which was intended also by the President of the Management Board, the Supervisory Board notified the public that a generation change was going to be made also at the top of the Management Board before the formal termination of office of this Supervisory Board. Hence, already at that time, the Supervisory Board appointed Jože Colarič (the then Deputy to the President of the Management Board) future President of the Management Board and mandatory for creation of the proposal for a new Management Board. The purpose of this was to apply the personnel policy unanimously before the end of 2004, which would enable strategically planned management continuity with the Company's own highly-qualified personnel in the future as well.

In accordance with this personnel policy, in 2004 Krka's Management Board was headed by Miloš Kovačič, President of the Management Board, whereas the Supervisory Board took actions throughout the year to implement the planned change in the Management Board by the end of 2004. That is why since the beginning of the year a harmonisation process between the President of the Supervisory Board, the President of the Management Board and the Deputy of the latter took place, whereas in April 2004 the Supervisory Board also appointed a permanent three-member human resource committee of the Supervisory Board. The role of the human resource committee is mainly to help the Supervisory Board in designing personnel measures and measures to evaluate the work of the Management Board and reward its members, as well as to prepare proposals for membership in the Company's Management Board.

On the proposal of Miloš Kovačič, President of the Management Board, to make an agreement on the cessation of office of the President of the Management Board as of 31 December 2004, and on the proposal of the human resource committee, the Supervisory Board made this agreement at the session of 12 July 2004. Accordingly, Jože Colarič was appointed new President of the Management Board for the period of five years as of January 1st, 2005. The change in the Company's management team was therefore implemented as planned, unanimously, without complication, and entirely for the Company's good. The Supervisory Board filled the vacancy in the Management Board in March 2005 with Zvezdana Bajc, who worked as the Director of the Economics and Information Processing Division.

IX.
Summary of the Supervisory Board's report, viewpoints and proposals to the Shareholders' Assembly

- The Supervisory Board verified the Annual Report 2004 of Krka, d. d., Novo mesto and the Krka Group within the legally prescribed time, which is a month as of the date of submission performed by the Company's Management Board.

  After the verification the Supervisory Board had no comments or impediments to the Annual Report, which is why the Supervisory Board unanimously approved the Annual Report 2004 of Krka, d. d., Novo mesto and the Krka Group at the session of 25 April 2005.

  Upon approval at the session of the Supervisory Board dated 25 April 2005, the Annual Report 2004 of Krka, d. d., Novo mesto and the Krka Group was officially endorsed.

- In accordance with the law, the Supervisory Board also discussed the Auditor's Report and the work of the authorised Auditor.

  The authorised Auditor issued an unqualified opinion on the financial statements and the Financial Report of Krka, d. d., Novo mesto and the Krka Group. The Supervisory Board had no comments to the Auditor's work and the Auditor's Report.

- The Supervisory Board verified the Management Board's Proposal to use the accumulated profit of 16,559,900,681 SIT and after mutual alignment endorsed it.

  Based on the conducted verification and according to the fourth paragraph of Article 282 of the Companies Act providing that the annual meeting decides on the use of the accumulated profit on the proposal of the Management Board, the Supervisory Board, together with the Management Board, advises the annual meeting to adopt the resolution on the use of the accumulated profit by way of earmarking 4,731,930,000 SIT (1,400 SIT gross per share) for dividends, 5,886,801,099 SIT for other revenue reserves from profit, 5,886,801,099 SIT for carry-forward to the next year, and 54,368,483 SIT for other purposes (participation of the Supervisory Board in the accumulated profit).

- Based on the data from the Annual Report 2004 of Krka, d. d., Novo mesto and the Krka Group, as well as the Auditor's Report and the report hereof, the Supervisory Board advises the Company's annual meeting to adopt the reports and accounts of the Management Board and the Supervisory Board of Krka, d. d., Novo mesto, as provided by Article 282 of the Companies Act.

- The Supervisory Board endorsed this report unanimously at the session of 25 April 2005.

Janez Prijatelj
President of the Supervisory Board

Novo mesto, 25 April 2005

ID CARD

Company name: Krka, tovarna zdravil, d. d., Novo mesto
Headquarters: Šmarješka cesta 6, 8501 Novo mesto, Slovenia
Telephone: 07 331 21 11
Fax: 07 332 15 37
E-mail: info@krka.biz
Basic activity: Production of chemical, pharmaceutical raw materials and finished products
Year of establishment: 1954
Registration entry: 1/00097/00, District Court Novo mesto
Company Identification Number for VAT: SI82646716
Company Identification Number: 5043611
Called-up capital: 14,170,448,000 SIT
Shares: 3,542,612 ordinary registered shares at par value of 4,000 SIT.
Krka's shares were listed on the Ljubljana Stock Exchange in 1997 with the trading symbol KRKG.

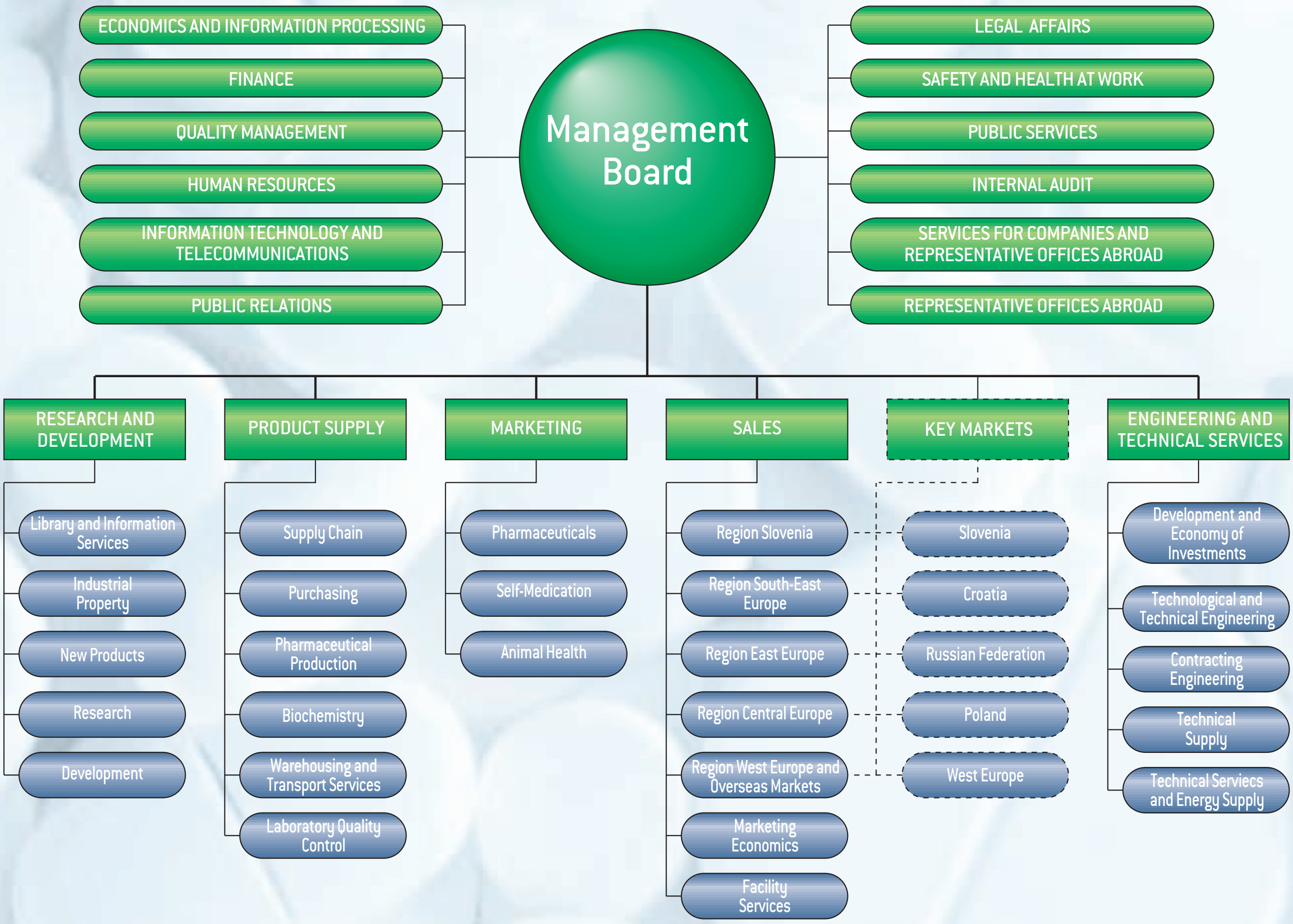
The Krka Group consists of the controlling company, Krka, d. d., Novo mesto, and the following subsidiaries and associated companies:

	Ownership share (in %)
Subsidiaries in Slovenia:	
KRKA ZDRAVILIŠČA, d. o. o., Novo mesto	100
Subsidiaries abroad:	
KRKA-FARMA d. o. o., Zagreb, Croatia	100
KRKA-FARMA DOOEL, Skopje, Macedonia	100
KRKA-POLSKA, Sp. z o. o., Warsaw, Poland	100
KRKA Aussenhandels GmbH, Munich, Germany	100
OOO "KRKA-RUS", Istra, Russian Federation	100
OOO "KRKA FARMA", Sergiev posad, Russian Federation	100
KRKA ČR, s. r. o., Prague, Czech Republic	100
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	
KRKA Sverige AB, Stockholm, Sweden	100
KRKA Magyarország Kft, Budapest, Hungary	99
HELVETIUS-S. R. L., Trieste, Italy	80
"KRKA-FARMA" D.O.O. NOVI SAD, Serbia and Montenegro	60
Associated company abroad:	
Dawa, Nairobi, Kenya	34.78

* Henceforth, shortened names of the companies are used.

The subsidiary Krka Zdravilišča, d. o. o., Novo mesto, has ownership shares in the following companies: Krka – Zdravilišče Strunjan, d. o. o. (51%), Golf Grad Otočec, d. o. o. (25%) and SRC Rog Črmošnjice, d. o. o. – undergoing bankruptcy (45.3%).

ORGANISATIONAL SCHEME OF KRKA



* Countries that represent especially important markets for Krka as well as those countries in which Krka has an organised development, marketing and production and distribution activities are classified by the management as key markets. Director of a key market is tasked with coordinating all activities that are performed by Krka's representative offices and/or dependent companies.

Valid as at 1 May 2005.

MANAGEMENT BOARD OF KRKA

At the Supervisory Board meeting on 12 July 2004, Jože Colarič was named President of the Management Board and started his five-year term on 1 January 2005.

Jože Colarič, President of the Management Board and Chief Executive
He was born on 27 August 1955 in Brežice. After completing grammar school in Novo mesto, he continued his education at the Faculty of Economics in Ljubljana. He concluded his studies in 1979 with a university degree in economy. He has been with Krka since 1982. He started work in the Finance Division, where he was first managing the Foreign Currency Transaction Department, and later as the assistant director. He took over management of the Export Services in the Export-Import Sector and became the deputy director of the department two years later. In 1993 he was named as the deputy to the Chief Executive for the area of marketing and finance, and in September of the same year started work as the Director of Marketing and Sales. In 1997 he was appointed as a Member of the Management Board. Next year, the Supervisory Board verified him as the Deputy President of the Board, and in 2002 recorded him as the future President of the Management Board and as the mandatory for preparation of the proposal for the new Management Board team. At the meeting of 12 July 2004, the Supervisory Board appointed him the President of the Management Board and the Chief Executive. His five-year term started on 1 January 2005.

Janez Poljanec, Member of the Management Board and Director of Product Supply
He was born on 18 March 1947 in Škofja Loka. He graduated from the Faculty of Natural Sciences and Technology in 1972 with a university degree in chemical technology engineering. He started working for Krka in 1974. His first job was as the medical representative in the Marketing Sector. In 1979, he transferred to the Export-Import Sector, where he was the Director of the Division for Overseas Countries, and later the Director of the Sector. In the years from 1985 to 1989, he worked for Krka through Generalexport in Combick, Frankfurt, and in 1990, he again took over management of the Export-Import Sector. In 1993, he became the Director of Procurement and Logistics Division and was named as a Member of the Management Board four years later by the Supervisory Board. He has been the Director of Product Supply since 2002.

Aleš Rotar, PhD, Member of the Management Board and Director of Research and Development

He was born on 7 June 1960 in Zadar, Croatia. He studied pharmacy at the Faculty of Natural Sciences and Technology in Ljubljana, graduating in 1984 and completing his master's studies seven years later. In 1993, he concluded the international MBA study at the IEDC Centre Brdo. He received his PhD in Ljubljana from the Faculty of Pharmacy in 2000. He started his work in Krka in 1984 in the Stability Department. In 1991, he became the Head of the Division for Pharmaceutical Technology, and two years later, he took over management of the Pharmaceutical Development in Research and Development Division. In 1998, he became the Deputy Director of this Division, and in 1999, he was named as the director. He was nominated as a Member of the Management Board in 2001. Since 2002, he has been the Director of Research and Development.

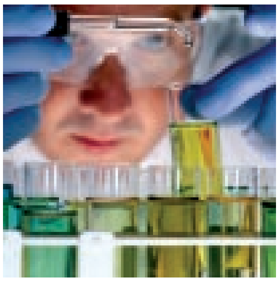
Zvezdana Bajc, Member of the Management Board and Director of the Economics and Information Processing Division

She was born on 9 January 1953 in Novo mesto. After completing grammar school in Novo mesto, she started her studies at the Faculty of Economics in Ljubljana, foreign trade course, and successfully finished it in 1977. She started working for Krka in 1977. Her career began in the Economics Division, and in 1979 she was transferred to the Investment Services. At the end of 1980, she temporarily left Krka and taught mathematics and organisational and economical aspects of business at the Secondary Technical and Health Care School in Novo mesto. She returned to Krka in 1986, to the Economic Planning Division. From 1999, she has been the Director of the Economics and Information Processing Division and was named Member of the Management Board in March 2005.

Danica Novak Malnar, Member of the Management Board and Worker Director

She was born on 19 May 1957 in Kremen, Krško municipality. She received a university degree in pharmacy from the Faculty of Natural Sciences and Technology in Ljubljana and was awarded an MSc in pharmacy. She began working in Krka in 1982 as an probationer in the production of pharmaceuticals, and later worked there as a technologist. In 1986, she became the manager of the Pharmaceutical Division in Ljutomer, and two years later, after returning to Novo mesto, she became the Head of the Division for Operative Production Planning, and took over managing the Production Planning Department in 1994. In 1998, she was named a Member of the Management Board with the function of the Worker Director. Since 1999, she has been in charge of the pharmaceutical production.

Speed and flexibility



Keeping pace with time, sometimes overtaking it.

SUPERVISORY BOARD OF KRKA

SHAREHOLDERS' REPRESENTATIVES

- Janez Prijatelj, President
- Bojan Dejak
- Borut Jamnik
- Janko Kastelic
- Mojca Osolnik Videmšek
- Stanislav Valant

EMPLOYEES' REPRESENTATIVES

- Sonja Kermc
- Mihaela Korent
- Miroslav Kramarič
- Darinka Kure
- Boris Petančič
- Božena Šuštar

• The new Supervisory Board of Krka, d. d., Novo mesto, will be elected at the regular annual meeting on 17 June 2005.

• The Supervisory Board has a four-year term.

CORPORATE GOVERNANCE CODE COMPLIANCE STATEMENT

In accordance with the Corporate Governance Code for Slovene public joint-stock companies (Official Gazette of the Republic of Slovenia, 40/04, henceforth the Code), which entered into force on 18 March 2004, binds Krka, d. d., Novo mesto (henceforth also Company) to publish a statement of compliance with the Code (the compliance statement). The Company issued first compliance statement for a period from 18 March to 27 September 2004. The compliance statement is published on the Ljubljana Stock Exchange website, SEOnet (http://seonet.ljse.si).

The compliance statement for a period from 27 September 2004 to the date of 2004 Annual Report release, is as follows:

The Company complied with the Code's provisions with the exception of the following provision:

2.3.10. Internal rules on prohibition of trading with the Company's shares and with Group companies' shares for members of Krka's and Group companies' bodies and for those employees who have access to insider information.

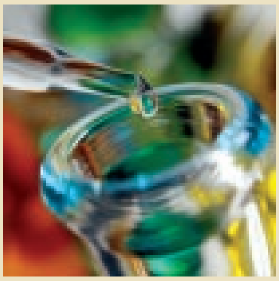
Krka has no specific act regarding prohibition of trading with the Company's shares and Group companies' shares. The Company's Information Confidentiality Policy and associated internal regulations govern relevant information confidentiality. The reporting of management board and supervisory board members, regarding transactions with the Company's shares, is regulated by the relevant provisions adopted by the Company's management and supervisory board. Due to the adoption of the amended Securities Market Act and associated decrees by the Securities Market Agency of the Republic of Slovenia dated 26 February 2005, the Company keeps updated records of persons with access to insider information. These persons are notified in writing of the legal prohibition of insider trading and of their reporting obligations to the Securities Market Agency of the Republic of Slovenia concerning transactions with the Company's securities and of the formal guidelines these reports must adhere to.

The compliance statement will be published in each Annual Report.

Novo mesto, March 2005

Krka, d. d., Novo mesto
Management Board

annual report



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business report of Krka, d. d., Novo mesto and the Krka Group

MISSION, VISION AND VALUES

Mission

Living the healthy life.

Our basic task is to enable people to lead a healthy, good quality life. This we achieve through our rich range of products and services – with prescription pharmaceuticals, self-medication products, with cosmetic and animal health products, and with our health-resort services, with investment in people and the environment, and through sponsorship and donations.

Vision

We are continually consolidating our position as one of the leading generic pharmaceutical companies on the European market.

We are achieving this on our own by strengthening the long-term business connections and by establishing partnerships in the fields of development, product supply and marketing.

Values

Speed and flexibility

Our knowledge, our abilities, our capability to innovate, our productivity and our ingenuity enable us to be fast. We want to be first. Not just in sales, but in discovering the markets' new needs. We can do this by successfully shortening the development process, swift acquisition of registration documentation and our harmonised production and distribution.

With our responsiveness and the ability to adapt we overcome the obstacles in our path, be they of a marketing or legislative nature. We can cope with any and all challenges – regardless of the size and the site of the project. Using flexible solutions, we make sure our partners can rely on us.

Partnership and trust

Krka helps create good relationships. We strive for trust-based relationships with our partners: our customers, our suppliers, our owners and everyone else who surrounds us. Only good and open relationships can help us achieve both business success and our primary mission.

Creativity and efficiency

The only real way to achieve first-class results is by creating an atmosphere that motivates our employees to be innovative and creative. Therefore, we encourage our employees to speak freely of their ideas and if these ideas prove to be good for the Company, we encourage them realise them. Together, we seek new paths to make our customers satisfied.

We perform our tasks as well as we can. We strive to do what we do in the best, most efficient and most time conserving way.

EXPECTED DEVELOPMENT FOR THE KRKA GROUP IN 2005

Macroeconomic environment

Our business will be influenced by external factors in 2005, which could make achieving the goals we set more difficult. Some of these factors are specific for the pharmaceutical industry while others are general and are a consequence of the macroeconomic and political changes in the world. Key external factors we should take into account in 2005 are the following:

- increasing competition in the generic pharmaceutical industry and associated pricing pressures (manufacturer consolidation, pressure by Indian and some European companies)
- attempts by the manufacturers of innovative drugs to restrict generic product marketing
- decreasing expenditures for purchasing of drugs and subsequent pharmaceutical product price limitations.

In addition to the above, the following can influence our operations:

- unforeseen regulative changes regarding development and marketing of products at home and abroad
- rising prices of oil, gas and other raw materials, which could influence drug expenditures and monetary discipline in some of our markets
- changes in tax legislation accounting standards
- increasingly unstable exchange rates (especially EUR – USD) and interest rates
- possible political and economic instability in the countries where we have dependent companies, which could lead to devaluation of local currencies or undesirable administrative actions.

Business strategy of the Krka Group

- Primary focus on the European and central Asian markets.
- Performing pre-marketing activities on the American market.
- Broadening our product range in four key therapeutic areas: cardiovascular, infections, digestive tract and metabolism, and central nervous system.
- Intensive investments in key markets, particularly into marketing activities.
- Continued development of generic pharmaceuticals combined with efficient registration activity.
- Increasing the cost synergy within the Krka Group and taking advantage of business environments for Krka Group companies abroad.

Business goals for the Krka Group

- A 14% sales growth is anticipated, totalling 129 billion SIT.
- The biggest sales growth is forecast in regions South-East Europe and East Europe, while the largest single market will be Slovenia.
- Sales on foreign markets will account for 80% of total sales.
- The major product group remain human products (prescription pharmaceuticals and self-medication products) with an 89% share of total sales.
- The biggest investment in Slovenia will be the continuing construction of a active pharmaceutical ingredients production plant, while the biggest foreign investment will be the completion of the production and distribution centre Jastrebarsko in Croatia.
- The Krka Group will employ an estimated 5,200 people by the end of 2005, a third of which will be working abroad.

ANALYSIS OF BUSINESS OPERATIONS FOR KRKA

in million SIT

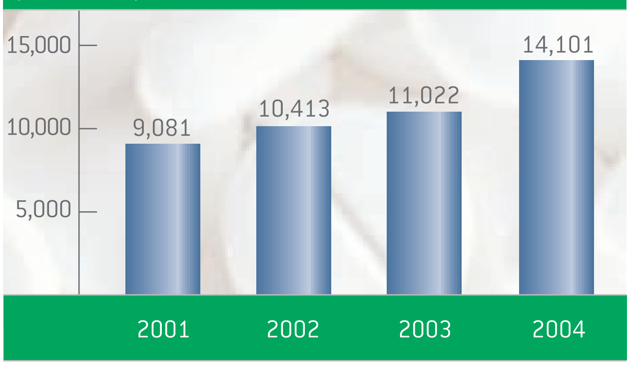
SIGNIFICANT OPERATIONAL DATA	2004	2003	2002	2001
Operating revenues	102,121	85,695	80,252	71,999
Net sales	97,978	85,388	77,665	70,903
Operating expenses	84,536	70,767	65,773	61,701
Operating profit	17,585	14,928	14,479	10,298
Net profit	14,101	11,022	10,413	9,081

Krka generated 105.8 billion SIT of revenues in 2004, 96.5% of which were operating revenues. Financial revenues amounted to 3.5 billion SIT, and extraordinary revenues totalled 112 million SIT.

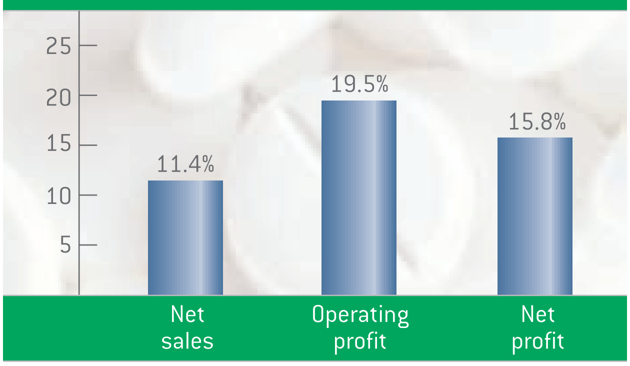
The operating revenues in 2004 amounted to 102.1 billion SIT, representing a 19% increase in comparison to the year before. By selling prescription pharmaceuticals, self-medication products and animal health and cosmetic products, the Company generated net sales revenues of 98 billion SIT, which is 15% more than in 2003. In the last four years, net sales revenues were growing by an average of 11.4% per year. Further sales growth is forecasted for 2005, namely at about 14%. The major part of sales revenues (81%) was generated by selling products, services and goods outside Slovenia. Growth levels in various markets differed significantly, with the biggest growth achieved in western European market, where sales almost doubled.

In 2004, the Company had 84.5 billion SIT of operating expenses, 4.2 billion SIT of financial expenses and 11 million SIT of extraordinary expenses. In the operating expenses structure that did not change significantly in the last years, the biggest share was attributed to goods, materials and services, followed by labour cost and amortisation/depreciation.

GROWTH OF NET PROFIT FOR THE 2001–2004 PERIOD
(in million SIT)



AVERAGE GROWTH LEVELS FOR THE 2001–2004 PERIOD
(in %)



The operating profit of Company was 17.6 billion SIT in 2004 (18% growth), while the profit before tax was 17.1 billion SIT. After deducting the 3 billion SIT in taxes, representing a 17.4% effective taxation, the net profit was 14.1 billion SIT, which is 28% more than in 2003.

The Company's assets were worth 151.1 billion SIT by the end of 2004 and grew by 5% in the last year. Due to new investments, especially on locations in Slovenia, the fixed assets were increased by 13%, while the current assets were reduced by 10% due to inventories and receivables reductions.

In the assets structure, the fixed assets represented the majority with 68.7%. Tangible fixed assets increased by 14% due to major investments and represented the largest share with 44.7% of the total assets. Long-term investments were increased by 4% in comparison to 2003. The change was a result of capital increases carried out in subsidiaries in Croatia and the Russian Federation, and the related profits from subsidiaries.

Current assets represented a 31.2% share in the Company's assets structure. Their share decreased by 5 percentage points due to lower balance of inventories and operating receivables. Inventories were 12% lower in comparison to 2003, which was mostly due to increased sales in the western European markets. Operating receivables were reduced with regard to 2003 despite increased sales in nearly all markets, by a total of 11%. The reduction is attributable to increased sales and customer claims in western European markets, where payment terms are short.

In the structure of sources of assets, the share of capital increased by 3.7 percentage points compared to 2003 and amounted to 70.6%. The increase is mainly the result of the increase in net profit for 2004.

Provisions are an important item and they record a decrease by 1.3 billion SIT by the end of the year. The reduction was largely due to elimination of provisions in relating to the enalapril suit, which was concluded in 2004 in favour of the controlling Company. At the same time, additional provisions were formed for other lawsuits in connection with cardiovascular drugs that are still in process.

Compared to the balance of the year-end 2003, the most notable change was in the structure between financial and operating liabilities, as the Company took long-term loans instead of short-term loans. For that reason, the share of long-term liabilities increased (from 3.1% to 9.1%), while the portion of short-term liabilities, especially financial liabilities decreased (from 19.8% to 11.4%). Long-term and short-term liabilities were in total reduced by 6%.

Compared to 2003, also business indicators have improved in 2004, namely: net sales revenues reached 13.3% (2003: 12.3%), return on equity was 13.9% (2003: 11.9%), and return on assets was 9.5% (2003: 8.1%).

ANALYSIS OF BUSINESS OPERATIONS FOR THE KRKA GROUP

in million SIT

SIGNIFICANT OPERATING INDICATORS	2004	2003	2002	2001
Operating revenues	117,681	97,462	91,346	80,579
Net sales	113,317	96,749	88,338	79,322
Operating expenses	100,291	83,022	76,329	70,732
Operating profit	17,390	14,440	15,017	9,847
Net profit	14,660	10,563	11,080	8,553

The Krka Group generated 121.2 billion SIT of revenues in 2004, 97.1% of which were operating revenues. Financial revenues amounted to 3.4 billion SIT, and extraordinary revenues totalled 142 million SIT.

The operating revenues in 2004 amounted to 117.7 billion SIT, representing a 21% increase in comparison to the year before, while net sales record an increase of 17%. Compared to sales of the controlling Company, group sales were increased by 15.3 billion SIT or 16%. Increased sales of the Group in Slovenia were due to the provision of spa tourism services of Krka Zdravilišča, which amounted to 6 billion SIT and increased sales on domestic market. Sales on foreign markets were increased by subsidiaries in Croatia, Poland and the Russian Federation. In the last four years, net sales of the Krka Group increased by an average of 12.6% per year. A 14% increase in sales is forecasted for 2005. Also in the Krka Group, the major part of net sales (78%) is attributable to the sale of products, services and goods outside Slovenia. Growth rates by individual markets differed substantially, with the biggest growth rates achieved in the western and eastern European markets.

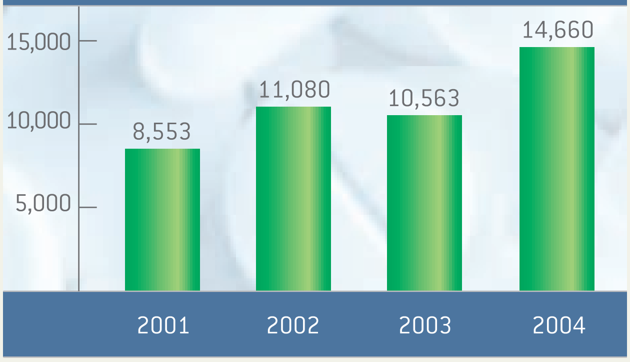
Operating expenses were 100.3 billion SIT in 2004, financial expenses amounted to 3.3 billion SIT, whereas extraordinary expenses amounted to 26 million SIT. Within the operating expenses structure that did not change significantly in the last years, half of expenses refer to goods, materials and services, followed by labour cost and amortisation or depreciation expenses.

The operating profit of the Krka Group was 17.4 billion SIT in 2004, while the net profit was 14.7 billion SIT, an increase of 39% compared to 2003. This means that the group created 559 billion SIT more net profit than the controlling Company, which is primarily due to realisation of profit from inventories which were reduced by a large amount in subsidiaries in Croatia and Poland compared to 2003.

Since the majority of assets and liabilities were those of the controlling Company, the changes in its balance sheet were similarly reflected in the balance sheet of the Krka Group.

The Group’s assets were worth 154.2 billion SIT by the end of 2004 and grew by 5% or 7.9 billion SIT in the last year. Due to new investments, the fixed assets were increased by 11%, while the current assets were reduced by 5% due to the decrease in inventories and receivables.

GROWTH OF NET PROFIT FOR THE 2001–2004 PERIOD
(in million SIT)



AVERAGE GROWTH LEVELS FOR THE 2001–2004 PERIOD
(in %)

Fixed assets represented the largest share of assets. Tangible fixed assets increased by 10% due to new investments and represent 61% of the Krka Group's total assets. Besides investments by the controlling Company in Slovenia, major investments were made in the production and distribution centre in Croatia and in Krka Zdravilišča. Long-term investments refer mainly to the controlling Company's own shares.

Current assets represent a 32% share in the Group's asset structure. Their share was decreased less than four percentage points due to reduced inventories and operating receivables. Inventories were 12% lower in comparison to 2003, which was mostly due to lower balance of inventories of the controlling company based on the increased sales in the western European markets. Due to increased sales in local markets, the inventories of subsidiaries in Croatia and Poland were also reduced. Compared to 2003, operating receivables were reduced by 6% despite larger sales made on all markets.

In the structure of sources of assets, the capital share was raised to 69% compared to the end of 2003. The increase is attributable to the increase in the net operating result of the current year.

The Group's long-term provisions refer entirely to provisions formed for the controlling Company. They were reduced by 1.3 billion SIT by the end of the year. The reduction was largely due to elimination of provisions formed for the enalapril suit, which was finished in 2004 in favour of the controlling company. Furthermore, additional provisions were formed for other litigations regarding cardiovascular drugs, which are still in process.

Compared to the year-end 2003, the structure between financial and operating liabilities has changed for the controlling company raised long-term loans instead of short-term loans, thus influencing the liabilities structure of the Krka Group. Because of the aforesaid, the share of long-term liabilities significantly increased (from 4.0% to 9.5%), while the share of short-term liabilities, especially financial liabilities, decreased (from 20.7% to 12.6%). Long-term and short-term liabilities were in total reduced by nearly 6%.

In addition, the Krka Group also improved its basic operational indicators that in 2004 achieved following results: net profit in revenues reached 12.1% (2003: 10.4%), return on equity was 14.5% (2003: 11.4%), and return on assets was 9.8% (2003: 7.7%).

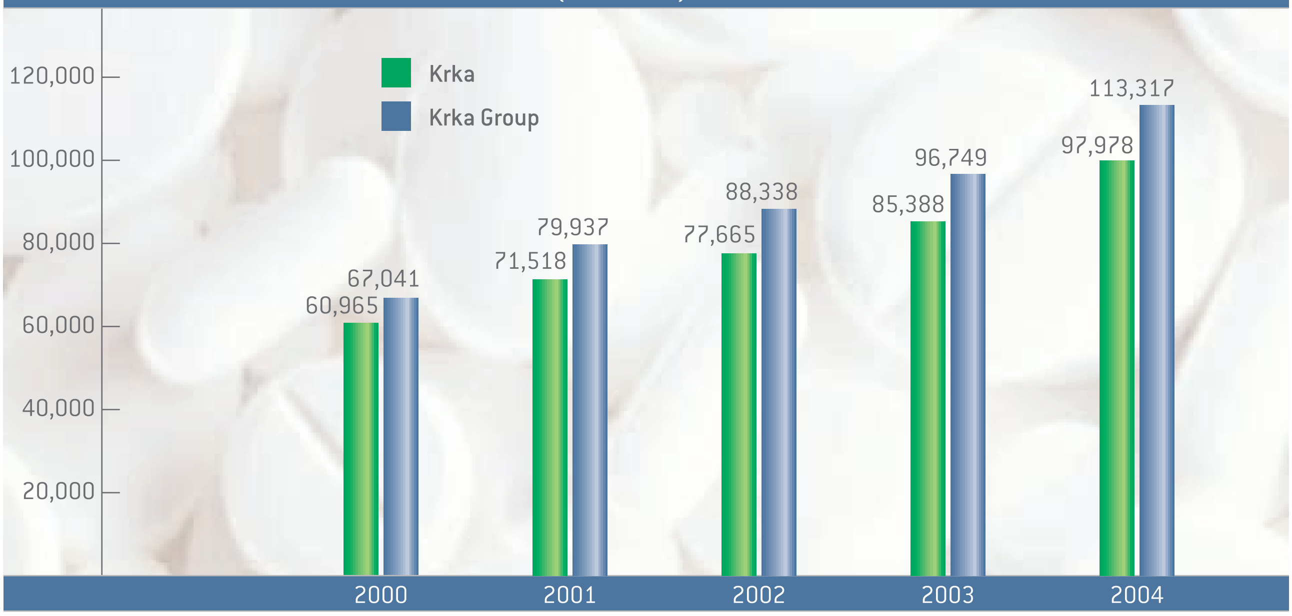
MARKETING AND SALES

Biggest sales so far, exceeding 100 billion SIT

Krka, d. d., Novo mesto, which has celebrated its 50th anniversary, conducts business abroad through its representative offices and companies. The Krka Group consists of Krka, d. d., Novo mesto (hereinafter "Krka" or "Company") and several subsidiaries, of which the leading one in terms of its sales results is Krka Zdravilišča (Health Resorts) in Slovenia, as well as the production and distribution companies Krka Polska in Poland, Krka-Farma in Croatia, and Krka-RUS in the Russian Federation. Production is underway in Poland and the Russian Federation and is being prepared in Croatia. Sales results of Krka and sales results of the Krka Group are reported below.

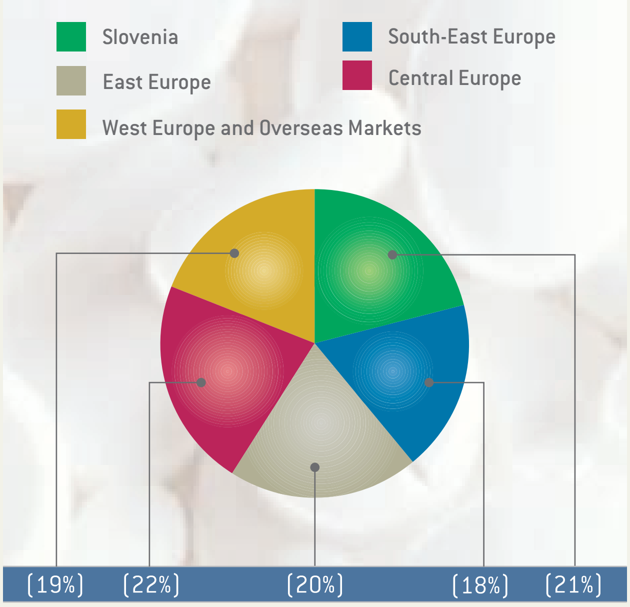
The Krka Group sold 113 billion SIT worth of products and services in 2004, which implies a 17% increase over 2003. Krka sold 98 billion SIT worth of products, achieving a 15% increase in sales compared to 2003.

SALES OF KRKA GROUP AND KRKA FROM 2000 TO 2004 (in million SIT)

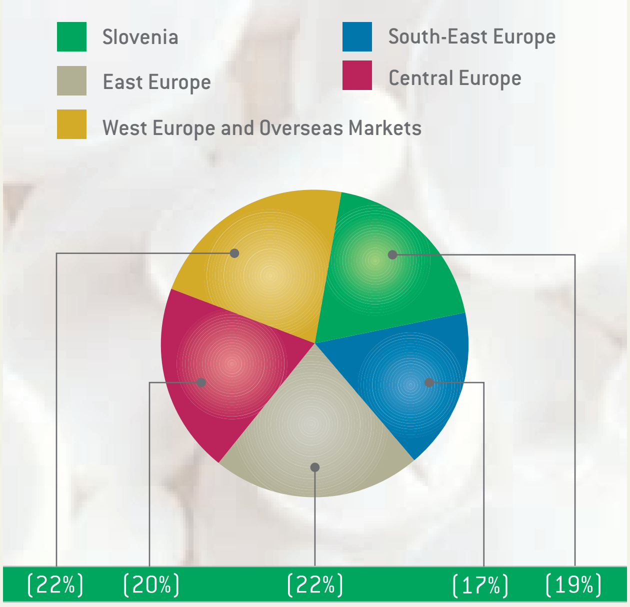


SALES OF KRKA GROUP AND KRKA FROM 2000 TO 2004 (in million SIT)	Krka Group	Share in %	Krka	Share in %
Slovenia	24,454	21	18,475	19
South-East Europe	20,397	18	16,798	17
East Europe	22,162	20	22,135	22
Central Europe	24,861	22	19,380	20
West Europe and Overseas Markets	21,443	19	21,190	22
Total	**113,317**	**100**	**97,978**	**100**

SALES OF INDIVIDUAL REGIONS IN TOTAL SALES OF THE KRKA GROUP IN 2004



SALES OF INDIVIDUAL REGIONS IN TOTAL SALES OF KRKA IN 2004



In 2004, Krka achieved sales growth in all regions, with the biggest growth recorded in the West Europe and Overseas Markets Region (+ 56%), and the East Europe Region (+ 13%). The West Europe and Overseas Markets Region had more than a fifth share of total sales for the first time in 2004.

SALES OF KRKA GROUP BY REGIONS IN 2003 AND 2004 (in million SIT)	2004	2003	Index 2004/2003
Slovenia	24,454	23,173	106
South-East Europe	20,397	18,859	108
East Europe*	22,162	19,938	111
Central Europe*	24,861	20,665	120
West Europe and Overseas Markets	21,443	14,114	152
Total	**113,317**	**96,749**	**117**

* Since Krka Group lists sales to Lithuania, Latvia and Estonia as the Central Europe Region instead of East Europe, the data for year 2003 has been adapted to this change. The total value of Krka Group's sales to these countries, in 2003, amounted to 2,352 million SIT.

SALES OF KRKA, d. d., NOVO MESTO BY REGIONS IN 2003 AND 2004 (in million SIT)	2004	2003	Index 2004/2003
Slovenia	18,475	17,830	104
South-East Europe	16,798	16,194	104
East Europe*	22,135	19,672	113
Central Europe*	19,380	18,109	107
West Europe and Overseas Markets	21,190	13,583	156
Total	**97,978**	**85,388**	**115**

* Since the company lists sales to Lithuania, Latvia and Estonia as the Central Europe Region instead of East Europe, the data for year 2003 has been adapted to this change. The total value of Krka sales to these countries, in 2003, amounted to 2,352 million SIT.

Slovenia Krka achieved a 4% growth compared to 2003 with sales of 18.5 billion SIT in 2004. Sales growth was achieved primarily with prescription pharmaceuticals for human consumption, self-medication products, and animal health products, the largest share of which are prescription pharmaceuticals (83%). The Krka Group, which includes Krka Zdravilišča, generated 24.4 billion SIT of net sales of products and services, 6% more than in 2003.

In 2004, Krka successfully adapted to the reference price system and the list of interchangeable medicinal products, which was introduced in November 2003, which reflected in an increased market share in the Slovenian market. Among prescription pharmaceuticals manufacturers, we took the leading position in the fields of statins, ACE inhibitors, sartans and proton pump inhibitors, while we are acquiring an increasing market share in the fields of depression and dementia treatment. In 2004, Krka started launching several new prescription pharmaceuticals of various indication groups including Ampril®, Mirzaten®, Atifan®, Azibiot®, while it expanded its existing brands by introducing Enap®-HL 20 and Lorista® HD.

In the field of self-medication products, Krka introduced new products under the umbrella brands of Herbion®, Duovit® and Pikovit®.

South-East Europe In south-east European markets, Krka sold 16.8 billion SIT worth of products, 4% more than the year before. The biggest sales growth was recorded in Romania (index 132) and Bulgaria (index 127).

Sales of self-medication products record the biggest increase (by 22%), representing 14% of total sales, while the sales of prescription pharmaceuticals for human use increased by 8%, representing three quarters of total sales. In the first group, the leading products are Bilobil®, umbrella brands Pikovit®, Septolete®, Daleron® and Herbion® and B-complex, while in the second, the leading products are Enap®, Vasilip®, Ciprinol®, Nolicin®, Fromilid® and Helex®. Sales of animal health products were somewhat down on 2003, primarily due to a sales slump in Croatia and Romania.

In Croatia, which is the largest single market in the South-East Europe Region, with a third of total sales, Krka achieved sales totalling 5.7 billion SIT, while Krka Group achieved sales of 8.3 billion SIT. Krka thus took 3rd position of pharmaceutical manufacturers, behind the two biggest domestic manufacturers.

Krka will further consolidate its position in Croatia with the new production and distribution centre in Jastrebarsko, near Zagreb, where the last preparations were finished in 2004. Production will start in 2005.

In Romania, the biggest share of sales in 2004 was achieved by prescription pharmaceuticals for human use with sales of 2.5 billion SIT, a 24% increase in comparison to 2003. These excellent sales results are attributable primarily to doubled sales of Vasilip® and Fromilid®, the introduction of Diflazon® and Coryol®, and the successful preservation of sales of well established products, such as Enap®, Nolicin® and Ciprinol®. An even greater growth was achieved by self-medication products, the sales of which achieved almost a billion SIT. The most successful among these were Bilobil® and products sold under the umbrella brand of Pikovit® and Septolete®. The decrease of livestock in Romania brought slower sales of our animal health products.

In the region, Bulgaria was among the most successful in 2004, where our sales exceeded a billion SIT for the first time. In Macedonia, sales were unchanged compared to 2003. Not entirely as successful as expected sales results are primarily due to lowering of prices on the market, a somewhat worse position of Krka's prescription pharmaceuticals on the tender list, as well as measures taken to reduce payment risks by the customers.

East Europe In the region of eastern Europe, Krka sold 22.1 billion SIT worth of products, 13% more than the year before. Part of Krka sales was the sales to the Krka-RUS, which will affect Krka-RUS and consequently Krka Group sales only in 2005.

In all markets in this region, sales were increased, with the biggest growth in Belarus (index 127) and the Transcaucasus (index 124), particularly Georgia. All product groups, in which prescription pharmaceuticals for human use have a 71% share, self-medication products a 24% share, and 3% and 2% shares for animal health and cosmetic products, respectively, achieved a more than 10% growth, compared to 2003, with the biggest growth achieved by animal health products (22%).

The most important market in the region is the Russian Federation, where sales were increased by 12% compared to 2003. The subsidiary company OOO Krka-Farma operated successfully and achieved planned sales. The subsidiary company, Krka-RUS, started production and continued with intensive acquisition of licences and permits for production of new products. In the last quarter of 2004, an in-depth reorganisation of Krka's presence in the market was performed, which will start to show results in 2005.

Ukraine is the second largest market in the region. At the end of the year, the political crisis caused somewhat lower sales, with results not meeting expectations. In spite of that the sales grew by 11% as compared to 2003. Most successful products were Enap®, Macropen®, Duovit®, Herbion® and Ciprinol®.

In this region, Krka is also present in Mongolia, which is a relatively small market, but an attractive one due to its low market penetration.

Central Europe In the central European markets, which consist of the new EU members (Poland, Czech Republic, Slovakia, Hungary, Lithuania, Latvia and Estonia), Krka achieved sales of 19.4 billion SIT in 2004, which is 7% more than in 2003. The Krka Group, which includes the subsidiary company Krka Polska, had sales that totalled 24.9 billion SIT, which is 20% more than in 2003. The biggest sales growth was achieved by prescription pharmaceuticals for human use, which represented 86% of total sales, with a 19% growth for self-medication products and 11% growth for animal health products.

In the Polish pharmaceutical market, Krka increased its market share with sales growth, surpassing the 2% mark by the end of the year. The best selling drugs were Vasilip®, Zalasta® and Tenox®, which are produced in our Warsaw plant and achieve sales growth for the Krka Group. This means that sales for the Krka Group amounted to 14.3 billion SIT in 2004, which is 27% more than the year before, while the sales of Krka, d. d., Novo mesto remained at the 2003 levels. Even though we were forced to lower the prices of some key prescription pharmaceuticals in the first and second half of 2004, this product group achieved a 28% sales growth. Our most important prescription products on the Polish market are Vasilip®, Atoris®, Lanzul® and Fromilid®, while our most important self-medication products are Septolete® and Bilobil®, the two brands for which we introduced two new products, Septolete® plus and Bilobil® forte. Our psychiatric prescription pharmaceuticals are gaining ground, especially with Asentra® and Yasnal® and Zalasta®, the latter being a high potential pharmaceutical that was introduced last year.

In the Czech Republic, which is the second largest market in the region, with a good fifth of total sales, sales increased by 18%. The majority of sales were generated by prescription pharmaceuticals for human use, the most important of which are Enap® and Vasilip®, while the growth of sales is primarily attributable to a successful launch of Lorista®.

In Slovakia, our sales fell by 1% due to a decrease in prices and a lower total market value because of changes in healthcare legislation due to a health reform. We plan a significant sales growth in 2005.

In Hungary, we started selling Atoris®, while acquired marketing authorisations for new products, and an overhauled and increased presence on the market, enable us to have optimistic expectations for 2005.

In Lithuania and Estonia, Krka achieved more than a 30% growth compared to 2003. In Lithuania, which is the biggest market among the Baltic states, we achieved significant growth in prescription pharmaceuticals for human use compared to 2003, and successfully adapted to the changes in the prescription rules.

West Europe and Overseas Markets The Region West Europe and Overseas Markets generated sales of 21.2 billion SIT with more than a 50% increase compared to the year before, again achieving the biggest sales growth of all regions. Almost 90% of sales are sales in western Europe, where we recorded a 67% increase compared to 2003. A high growth was also recorded in Asia.

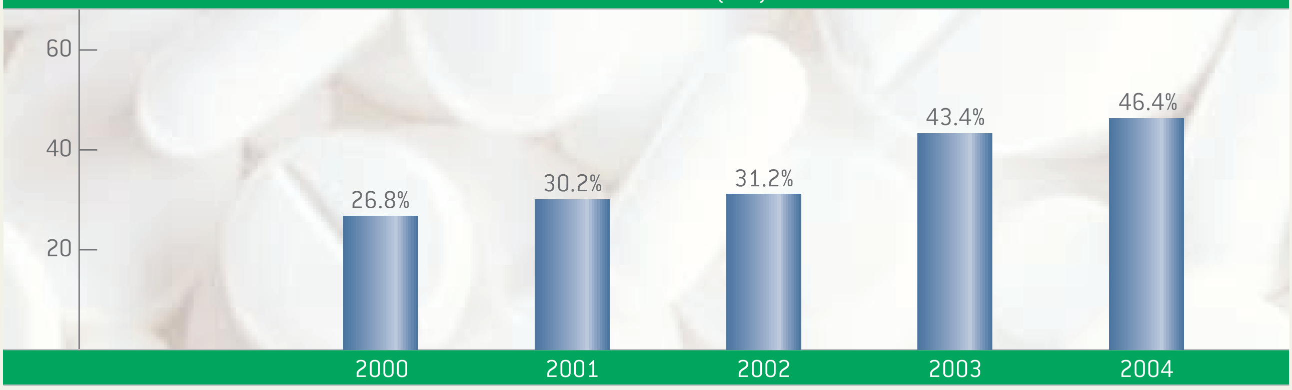
The majority of sales are prescription pharmaceuticals, which we sell through our partners in almost all western European countries. The most important drugs, such as enalapril, norfloxacin, ciprofloxacin and simvastatin, were joined in 2004 by tablets of amlodipine, carvedilol and mirtazapine. By a larger quantitative market share in the western European markets, we became the leading supplier of generic enalapril, norfloxacin, amlodipine and carvedilol and one of the leading suppliers of generic simvastatin and mirtazapine.

The above mentioned sales results for the Regions Slovenia, South-East Europe, East Europe, and Central Europe, were achieved by a well developed marketing and sales network, which was enhanced further in 2004, both in numbers and by investments into knowledge and skills. Products in these so-called traditional Krka markets are marketed with our own brands. In western Europe, where we are present primarily through partners, we opened Krka Sverige AB at the beginning of 2005, which will strengthen Krka's presence in Scandinavia.

New products represent a significant share of sales

We ensure our future by continually introducing new, modern products, the sales of which are increasing and which represent a significant share of sales. In 2004, we started selling new prescription pharmaceuticals, such as Ampril® (ramipril), Mirzaten® (mirtazapine), Zalasta® (olanzapine), Metadon Krka (methadone), Azibiot® (azithromycin), Atifan® (terbinafine), Betaklav® 2x (amoxicillin with clavulanic acid) and additional products of existing brand names such as Lorista® HD (losartan with hydrochlorothiazide), Enap®-HL 20 (enalapril with hydrochlorothiazide) and some others. Among the self-medication products, we also launched products under existing brand names, such as the vitamin and mineral product Duovit® for women, Duovit® for men, Duovit® memo, the vitamin product Pikovit® Plus, Bilobil® forte with ginkgo biloba, and Herbion® ginseng with ginseng extracts from the herbal medicine family.

THE SHARE OF NEW PRODUCTS BY TOTAL SALES OF KRKA 2000 TO 2004 (in %)



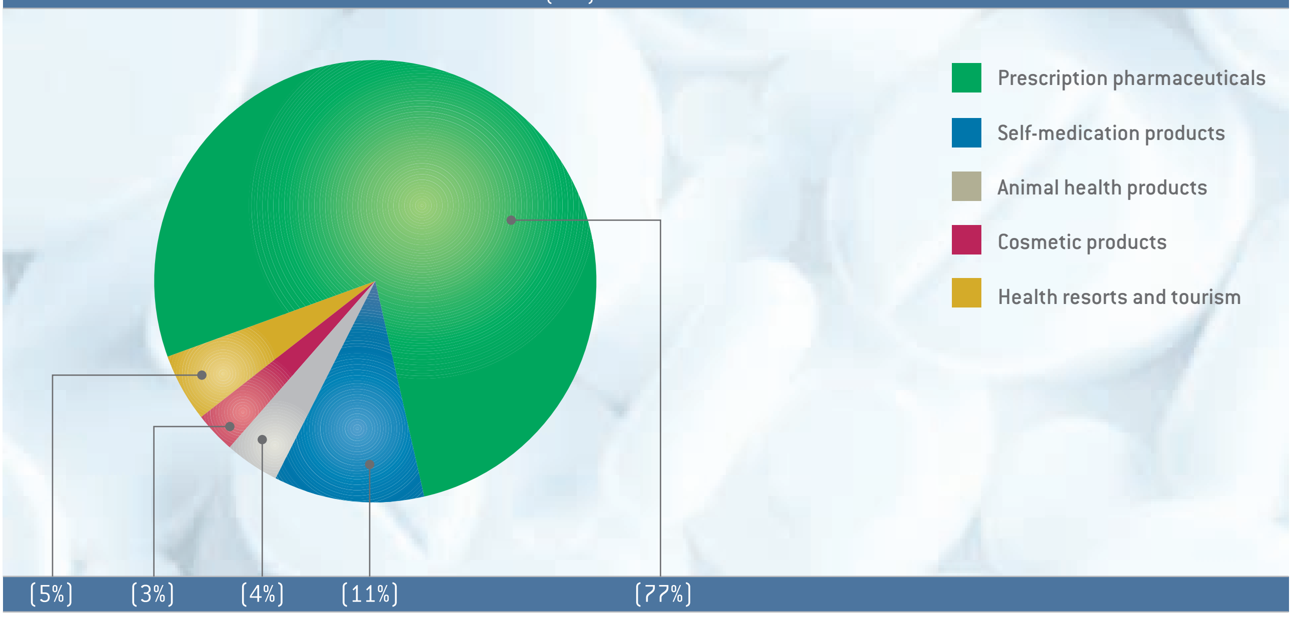
Product groups

In the sales structure of Krka, prescription pharmaceuticals for human use have the biggest share (79.8 billion SIT), followed by self-medication products (11.4 billion SIT) and veterinary products (almost 3.9 billion SIT).

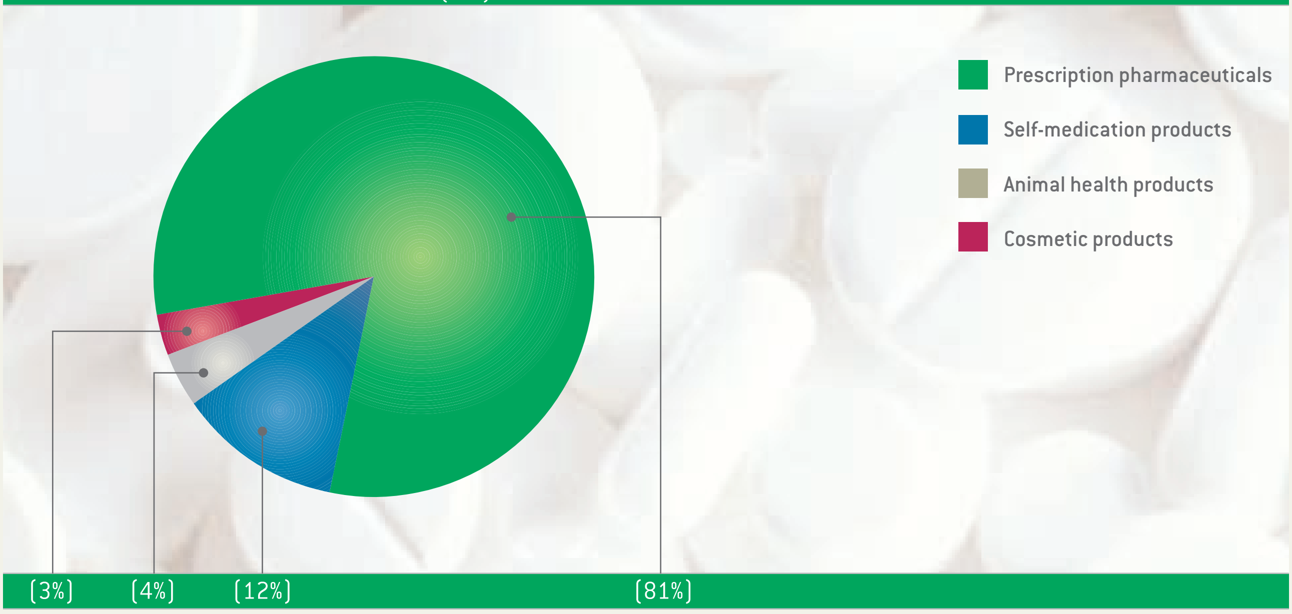
Compared to 2003, we recorded sales growth for human use products (index 118), especially with prescription pharmaceuticals (index 119) and self-medication products (index 110), while the sales of animal health products remained at the 2003 level. In 2004, we reduced our cosmetics range considerably in accordance with our strategy.

SALES OF KRKA GROUP AND KRKA BY PRODUCT GROUPS IN 2004 (in million SIT)	Krka Group	Share in %	Krka	Share in %
Human health products	100,155	88.4	91,211	93.1
Prescription pharmaceuticals	87,704	77.4	79,848	81.5
Self-medication products	12,451	11.0	11,363	11.6
Animal health products	4,133	3.6	3,884	4.0
Cosmetic products	2,884	2.5	2,736	2.8
Health resorts and tourism	5,966	5.3		
Other	178	0.2	147	0.1
Total	**113,317**	**100.0**	**97,978**	**100.0**

SALES OF KRKA GROUP BY PRODUCT GROUPS IN 2004 (in %)



SALES OF KRKA PRODUCT GROUPS IN 2004 (in %)



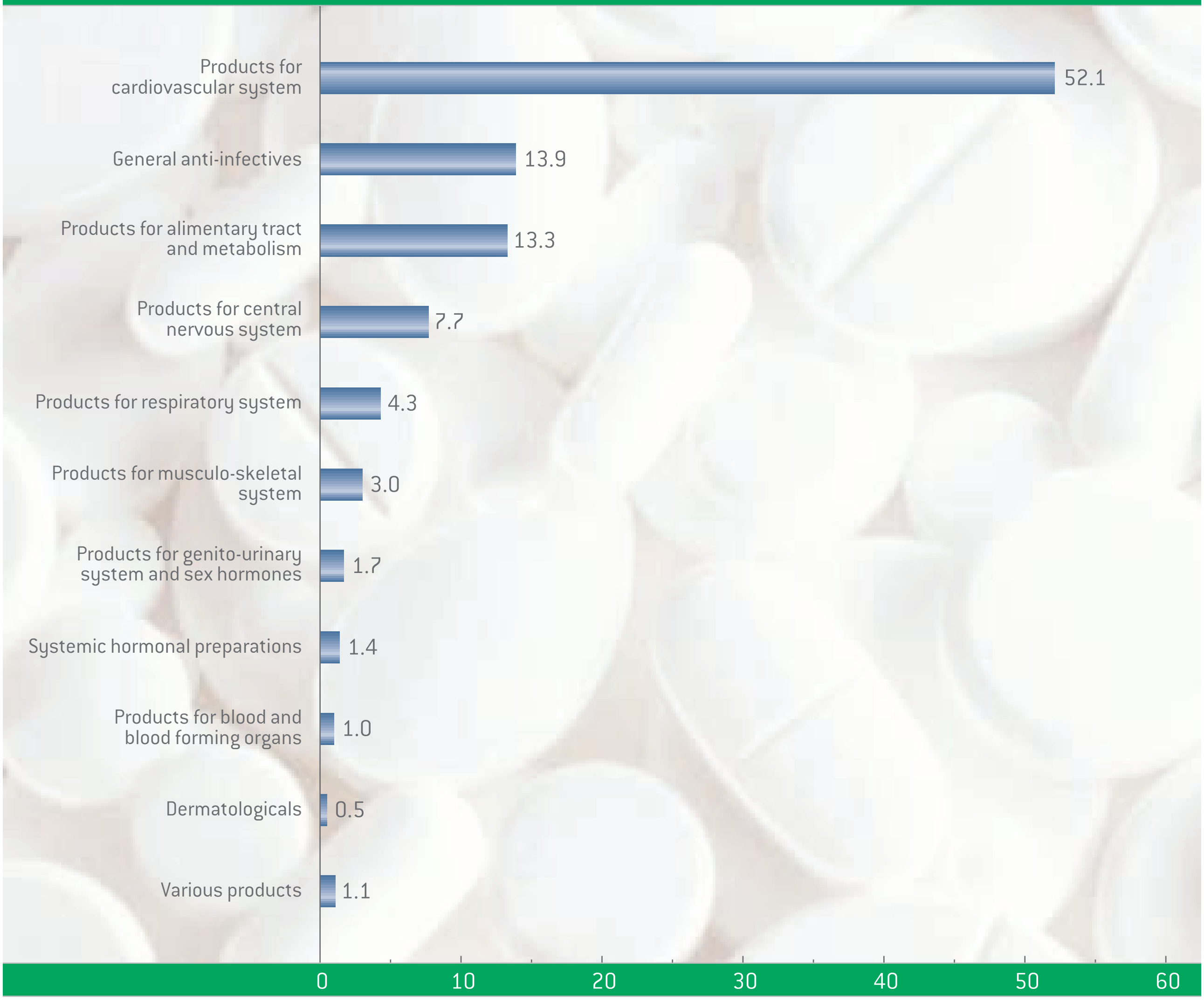
SALES OF KRKA GROUP BY PRODUCT GROUPS IN 2003 AND 2004 (in million SIT)	2004	2003	Index 2004/2003
Human health products	100,155	82,911	121
Prescription pharmaceuticals	87,704	72,043	122
Self-medication products	12,451	10,868	115
Animal health products	4,133	4,082	101
Cosmetic products	2,884	4,111	70
Health resorts and tourism	5,966	5,317	112
Other*	178	328	54
Total	**113,317**	**96,749**	**117**

* The revenues from the subsidiary company in Ireland were included in the "prescription pharmaceuticals section" in 2004, therefore the data for 2003 was adapted accordingly, when the revenues of this company (totalling 513 million SIT) were included in the "Other" section.

SALES OF KRKA BY PRODUCT GROUPS IN 2003 AND 2004 (in million SIT)	2004	2003	Index 2004/2003
Human health products	91,211	77,321	118
Prescription pharmaceuticals	79,848	67,019	119
Self-medication products	11,363	10,302	110
Animal health products	3,884	3,890	100
Cosmetic products	2,736	3,890	70
Other	147	286	51
Total	**97,978**	**85,388**	**115**

Krka produces several products for the treatment of human diseases, for the most important indication groups. In 2004, the share of cardiovascular medicines increased again, surpassing 50%. Compared to last year, shares of medicines for the systemic treatment of infections and medicines for gastrointestinal and metabolic diseases were decreased, and accordingly to the strategy, the share of medicines for the treatment of central nervous system was increased.

THE SALES OF HUMAN HEALTH PRODUCTS BY INDICATION GROUPS IN 2004 FOR KRKA (in %)



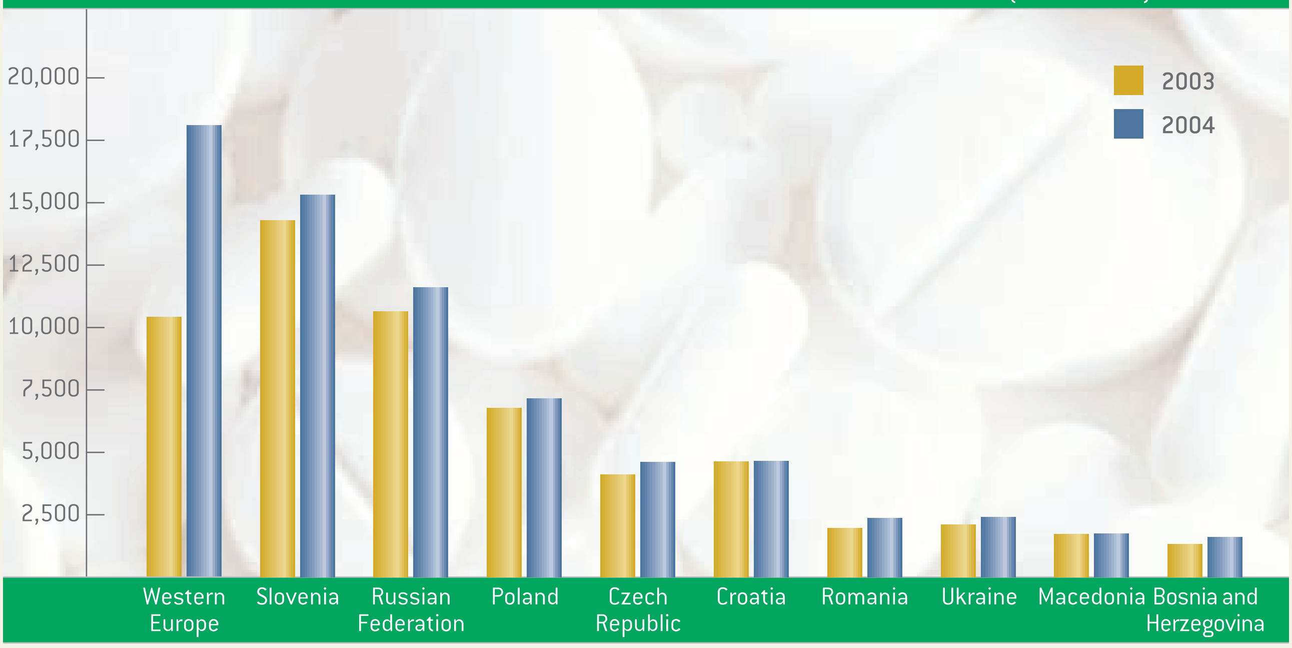
Prescription pharmaceuticals

The Krka Group sold 87.7 billion SIT worth of prescription pharmaceuticals in 2004, 23% more than in 2003. Of this, Krka, d. d, Novo mesto sold 79.8 billion SIT of these products, 19% more than in 2003.

Among Krka's 10 largest markets, the biggest growth by far was achieved in western Europe (index 172), with double figure growth in Romania (index 124), the Czech Republic (index 119) and Ukraine (index 112). In Poland, where a large share of prescription pharmaceuticals sold in 2004 was manufactured by the subsidiary company Krka Polska, Krka Group sales increased by 28%, compared with 2003.

Sales of our own generic medicines increased (index 128), while sales of licensed products decreased, according to expectations (index 88). The share of licensed products in total prescription pharmaceutical sales reached only 16%.

SALES OF PRESCRIPTION PHARMACEUTICALS IN TEN LARGEST MARKETS FOR KRKA IN 2003 AND 2004 (in million SIT)



Medicines for the treatment of cardiovascular diseases Nowadays, statins are among the most important medicines for treatment and prevention of cardiovascular disease. Clinical trials have proved that a decreased level of LDL cholesterol lowers the risk for occurrence and development of cardiovascular disease. Intensive statin treatment is establishing itself as a proven method to decrease the number of cardiovascular complications and prolong survival more effectively than moderate treatment. In most of Krka's traditional markets, general use of statins is relatively low, as only a part of the most endangered patients receive them.

Krka has the leading market share with statins Vasilip® (simvastatin) and Atoris® (atorvastatin) in Slovenia (55%), Ukraine (41%), the Russian Federation (21%) and Poland (19%), while it is among the leading statin manufacturers in Croatia, Belarus, Kazakhstan and Bulgaria. Vasilip® has a large market share among simvastatins in Slovenia (70%), Ukraine (66%) and Belarus (46%), while Atoris® has a large market share among atorvastatins in Slovenia (44%), Poland (31%) and Lithuania (25%). Sales of Atoris® in 2004 was almost five times the previous year, placing it among Krka's leading products. Our expectations for the future are greater still, as we started selling Atoris® in Ukraine, Lithuania, Latvia, the Russian Federation, Hungary, Slovakia and Croatia, in 2004. Besides the proven bio-equivalence of Atoris® and the original atorvastatin, we have proven the therapeutic equivalence and excellent tolerability of Atoris®, compared with the original atorvastatin in a double blind, randomised study.

In central and eastern Europe, Krka is the leading manufacturer of medicines that affect the renin-angiotensin-aldosterone system. We added a new ACE inhibitor, Ampril® (ramipril) to the existing brands Enap® and Lorista® at the end of the year. In Slovenia, it is available in four concentrations and two types of packaging. Tablet blisters are marked with the days, helping patients with taking the drug at the right time.

Enap®, which was the most successful of Krka's medicines in 2004, is the leading enalapril in the Russian Federation, Slovenia, Czech Republic, Slovakia, Lithuania, Croatia, Bosnia and Herzegovina, Macedonia, Kazakhstan and Albania. Krka's enalapril tablets have the top spot in generic enalaprils in western Europe. At the end of 2004, we expanded our Enap® range in Slovenia with Enap®-HL 20, a new, fixed combination of enalapril with hydrochlorothiazide. With a large spectrum of fixed combinations Enap®-H, Enap®-HL and Enap®-HL 20, Krka enables patient treatment to be adapted for the more resistant forms of arterial hypertension.

Angiotensin II receptor inhibitors (sartans) is the newest medicine group for the treatment of hypertension. Krka is present in Slovenia, Czech Republic, Slovakia and Poland with Lorista® (losartan). We are achieving large growth and significant market shares especially in Slovenia, where we are the leading losartan manufacturer, and in the Czech Republic, where we have a more than 40% of market share, where sales have grown by 2.5 times. A combination of losartan with a diuretic, Lorista® H, has achieved an almost 50% market share of all losartan and hydrochlorothiazide sales in Slovenia, while Krka introduced another fixed combination with a larger dose, Lorista® HD, which is intended for the treatment of severe hypertension.

Amlodipine is the world's leading anti-hypertensive agent, and is included in Krka's range of anti-hypertensives. At the beginning of 2004, we started selling Tenox® (amlodipine) in Slovenia and Ghana, with sales in the Czech Republic beginning in autumn 2004. In Lithuania, where its marketing started in 2003, it achieved a 14% market share among amlodipines, despite the presence of four other generics, and achieved a 5% market share in Poland. Krka's amlodipine tablets are also selling well in west European markets, where we are the leading generic amlodipine manufacturer with a market share of more than 50%.

Coryol® (carvedilol) is intended for patients with various cardiovascular diseases. In Slovenia, Ukraine and Lithuania, it is the leading carvedilol with market shares of between 46 and 88%. In 2004, Krka's tablets of carvedilol started selling very well in west European markets, where we are the leading supplier of generic carvedilol. In Germany, Italy, the Netherlands and Scandinavia, we have a 60% market share of the generic market.

Kamiren® (doxazosin), an alpha-1 adrenergic receptor blocker, is used to treat symptoms of benign prostatic hyperplasia (first choice treatment) and increased blood pressure at the same time. Kamiren® is available in most central, eastern and south-eastern European markets, but achieved the highest sales in 2004 in Poland, where it also has a significant market share.

Medicines for the treatment of infections Clarithromycin is the leading macrolide antibiotic in Europe and is among the medicines of first choice for empiric treatment of respiratory infections. Due to its great importance, it was included in Krka's antibiotic range years ago. With Fromilid® (clarithromycin) Krka has achieved large market shares in most markets: up to 20% in the Czech Republic, 20 to 30% in Slovakia, Russia, Poland, Lithuania, Belarus and Bulgaria, 30 to 40% in Romania and Ukraine, 70% in Croatia and more than 80% in Slovenia. Fromilid® uno, (clarithromycin in tablets with prolonged release for once daily administration) was only available in Slovenia before, but Krka started marketing it in Lithuania, Latvia, Bulgaria and Slovakia in 2004.

We expanded our range of antimicrobials in Slovenia with azalide antibiotic Azibiot® (azithromycin), the main feature of which is simple and short administration.

The urinary infection medicine Nolicin® (norfloxacin) has long been among the leaders. It achieved a double figure sales growth in 2004. Nolicin® is the leading norfloxacin in all the major markets of eastern, central and south-eastern Europe, with market shares of 50-60% in the Russian Federation, Romania and the Czech Republic, and with a market share of more than 90% in Hungary, Poland, Slovakia, Croatia and Slovenia.

Ciprinol® (ciprofloxacin), which Krka has been manufacturing for more than 15 years, is available in more than 30 countries. Ciprofloxacin is still indispensable for the treatment of several infections. Significant market shares (30% to 60%) were achieved in Croatia, Slovenia, Romania and Ukraine. In 2004, we introduced Ciprinol® 750 mg tablets in Slovenia, which are intended for oral treatment of severe infections. For really severe infections, parenteral forms of Ciprinol® are available, with which Krka has achieved leading market shares of 60 to 100% for the parenteral forms of ciprofloxacin in Romania, Lithuania and Bulgaria.

In 2004, we introduced Atifan® (terbinafine) to combat fungal infections in addition to Diflazon® (fluconazole), which is already an established medicine. Diflazon® is primarily intended for the treatment of vaginal candidosis and systemic candidal infections, while Atifan® enables modern treatment of dermal fungal infections, which are on the rise. Diflazon® has the largest market share in Slovenia, where it has more than a 50% market share for fluconazoles. The efficiency of Atifan® tablets in Slovenia is confirmed by the fact that Atifan® achieved a 17% market share among oral terbinafines in just half a year.

Medicines for the treatment of gastrointestinal and metabolic diseases

The most important medicines for the treatment of the upper part of the gastrointestinal tract are proton pump inhibitors, of which Krka produces two: Ultop® (omeprazole) and Lanzul® (lansoprazole). With these two medicines, we are the leading generic manufacturer of proton pump inhibitors in our traditional markets.

As important as Ultop®, which has been in production at Krka for 15 years, is Lanzul®, a modern proton pump inhibitor with a faster and stronger effect on stomach secretion. It is one of the leading proton pump inhibitors in Poland and is marketed successfully in Slovenia and Croatia. It has been available since the beginning of 2004 in the Czech Republic. In these four markets, the medicine achieved more than 50% sales growth, compared to 2003.

Krka also produces Sulfasalazin, a classical remedy for the treatment of chronic, infectious, bowel diseases. In Poland, it had a more than 50% market share in 2004. Krka started a more modern version, Samezil® (mesalazine), in 2004, in Slovenia, in several pharmaceutical forms, and it will be available soon in other Krka's markets.

Medicines for the treatment of central nervous system diseases The range of psychiatric medicines was expanded with Mirzaten® (mirtazapine) and Zalasta® (olanzapine) in 2004. Mirztaten® is an anti-depressant with dual action, a member of the newest generation of anti-depressants which is used to combat all forms of depression, including the most severe. In 2004, we started selling it in Slovenia and Lithuania. It achieved a 11% market share in the mirtazapine market in Lithuania, while Mirzaten® is currently the only mirtazapine in Slovenia. In 2004, we started marketing mirtazapine tablets in west European markets, where we are among the leading manufacturers.

Zalasta® (olanzapine) is among the most modern treatments of the central nervous system diseases. Olanzapine is an atypical anti-psychotic, which is used for the treatment of schizophrenia and bipolar disorder. Schizophrenia is a very common mental disorder, affecting 1% of the population. Olanzapine is the leading anti-psychotic in the world and one of the best selling medicines overall. We started marketing Zalasta® in Poland at the end of 2004.

In new markets, we started marketing existing products. Yasnal® (donepezil) entered the market in Lithuania and Slovakia in 2004. In the second year of promotion, Yasnal® has a 20% market share among donepezils in Poland (12% among all Alzheimer's disease treatments), while in Slovenia it has a 82% market share among donepezils and almost a third (30%) among Alzheimer's disease medicines. Yasnal® is the leading brand in this group in Slovenia.

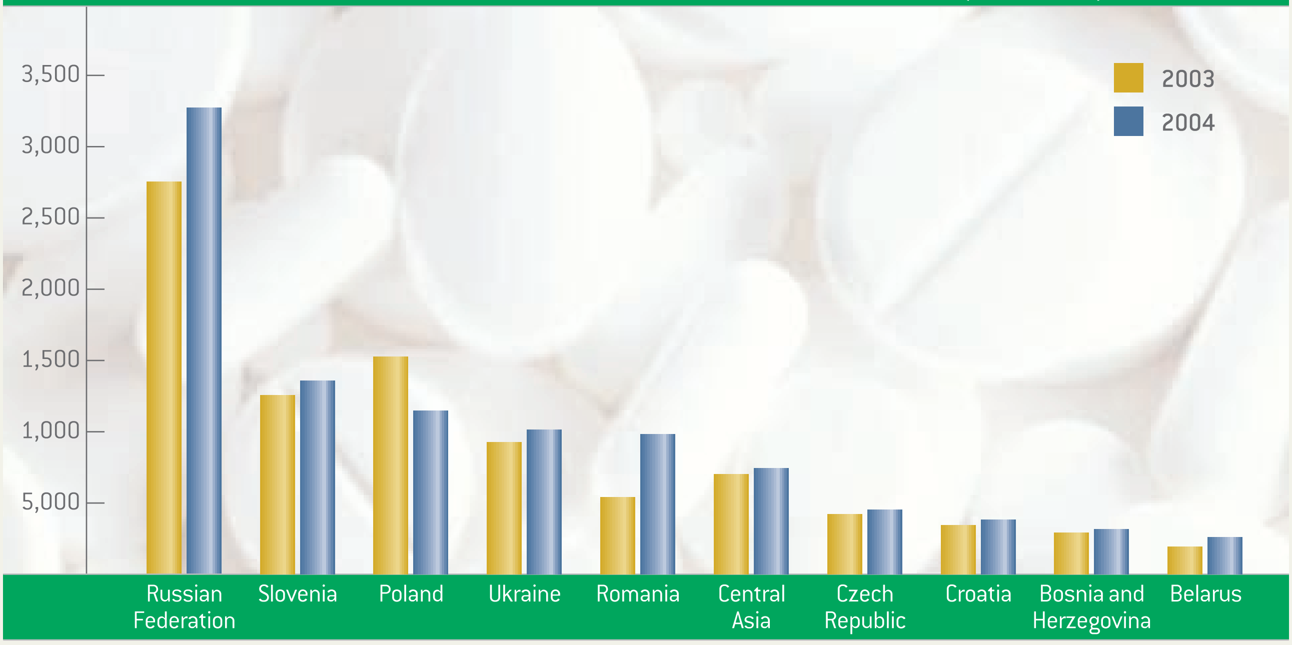
Asentra® (sertraline) has been in production in Krka for less than three years, but is already being marketed in 9 countries, with sales doubled in 2004 compared to the previous year. In 2004, we started marketing it in Slovakia. In Slovenia, Asentra® has a 41% market share among sertralines and a 10% share among all anti-depressants, making it the fifth best selling anti-depressant. In Lithuania, Asentra® has a 47% market share among sertralines and a 13% share among all anti-depressants, making it the second best selling anti-depressant. Sales of Asentra® are increasing in other countries, for instance in the Czech Republic, where it achieved a 20% market share among sertralines in a year and a half.

Self-medication products

The Krka Group sold 12.4 billion SIT worth of self-medication products in 2004, 15% more than in 2003. Of this, Krka, d. d. sold 11.4 billion SIT of these products, 10% more than in 2003.

Among the 10 largest markets, the biggest sales growth was achieved in Romania (index 174), Belarus (index 134), with a two figure growth in the Russian Federation (index 120), Bosnia and Herzegovina (index 115), the Czech Republic (index 113), Ukraine (index 111) and Slovenia (index 110).

SALES OF SELF-MEDICATION PRODUCTS IN TEN LARGEST MARKETS FOR KRKA IN 2003 AND 2004 (in million SIT)



Among the most important brands for self-medication are the umbrella brands Septolete® and Pikovit®, which were joined by Bilobil®, with very good sales in 2004. All these brands continue to be among the leading brands in their respective categories in individual markets. Pikovit® has the leading market share, by value, in the Russian Federation (19%), Ukraine (19%) and Slovenia (69%). Septolete® has a 32% market share in Slovenia and a 17% market share in the Czech Republic. Bilobil® is among the leading products in its category in Poland, with a 26% market share, and a 50% market share in Romania.

In 2004, we launched some important products in our key markets, such as Septolete® plus in the Russian Federation and Poland, Bilobil® forte in Lithuania and Duovit® for women, Duovit® memo and Pikovit® plus in Slovenia.

We intensified our cooperation with pharmacy chains in central and eastern Europe and started introducing new promotional activities to form an integrated marketing approach, including sales channels we have not used so far.

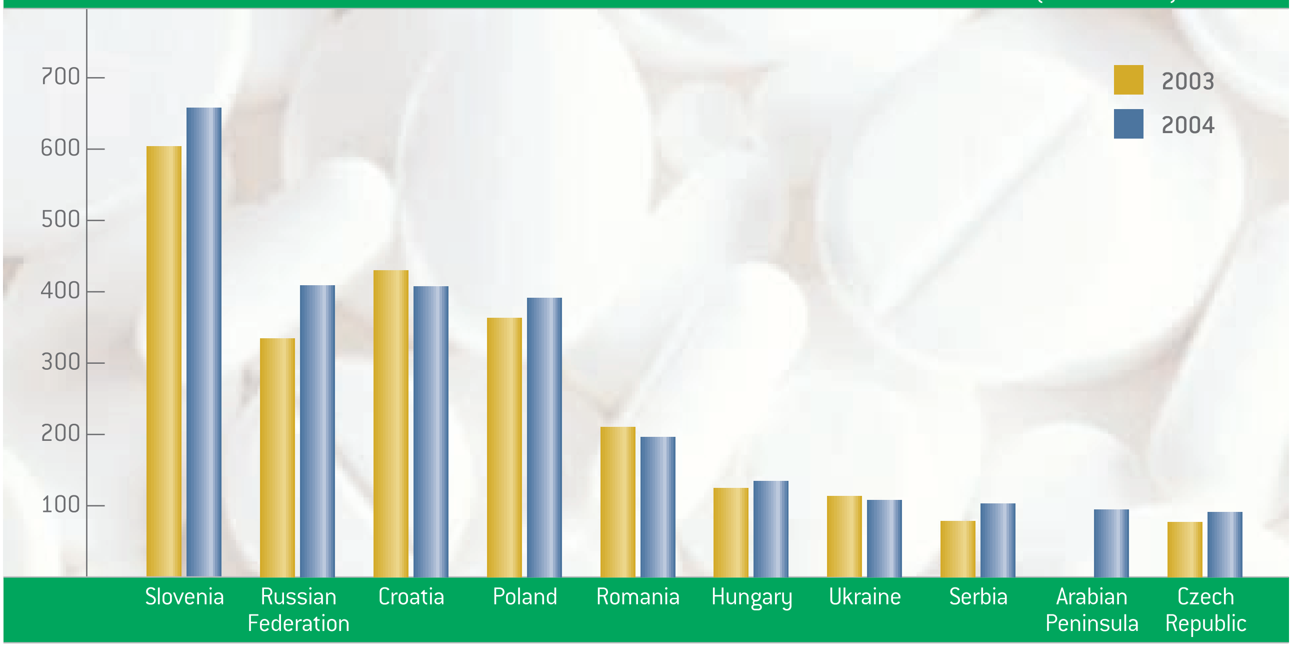
Animal health products

The Krka Group sold 4.1 billion SIT worth of veterinary finished products and raw materials, the same as in 2003. Of that, Krka sold 3.9 billion SIT worth of products, the same as the year before. Sales of animal health finished products increased (index 112), while raw material sales are still decreasing (index 76), due to lower consumption of those raw materials we offer in our markets and due to pressure to lower the prices.

Among the ten biggest markets, the biggest sales growth for animal health products was achieved in Serbia (index 134), the Russian Federation (index 126), and the Czech Republic (index 123), with a two-figure growth in Hungary (index 111). The Arabian Peninsula became one of our ten biggest markets following the almost negligible sales in 2003.

The key products among our veterinary products are Enroxil® (enrofloxacin), which is marketed in almost all traditional markets, and Floron® (florfenicol), which is a promising drug.

SALES OF FINISHED ANIMAL HEALTH PRODUCTS IN TEN LARGEST MARKETS FOR KRKA IN 2003 AND 2004 (in million SIT)



With sales of these products, we hold on to our leading position in Slovenia and Croatia and increase our position in Poland and the promising markets of eastern Europe, especially the Russian Federation and Ukraine.

Cosmetic products

A change of strategy influenced somewhat slower sales of cosmetic products in 2004, by which we intend to discontinue production and marketing of merchandise and decorative cosmetics and concentrate on cosmeceutical products (cosmetic products with high efficiency), which are more compatible with the pharmaceutical industry. The Krka Group sold 2.9 billion SIT worth of cosmetic products, of which a bit less than two thirds were exported. Krka, d. d., Novo mesto sold 2.7 billion SIT worth of cosmetic products. The leading market with 36% of sales is still Slovenia, followed by the Russian Federation, Bosnia and Herzegovina, Serbia and Montenegro, and Croatia.

In 2004, our promotional and sales activities were directed toward our own brands Vitaskin® for skin care, Fitoval® for hair treatment, and Sun Mix® for sun protection. At the same time, we conducted sales of perfumes and decorative and other products, the production or sales of which were discontinued. Our cosmetic products mostly appear in retail chains, specialised shops (drugstores) and pharmacies. We discontinued consignment sales.

Health resorts and tourism

The company Krka Zdravilišča combines business units of Zdravilišče Dolenjske Toplice, Zdravilišče Šmarješke Toplice, Hoteli Otočec and Hotel Krka in Novo mesto. Krka Zdravilišča is also the majority owner of the company Krka – Zdravilišča Strunjan, d. o. o.. At the beginning of 2004, a new business unit was included in the company. This was Hotel Krka, which previously operated under the controlling company Krka.

The total number of guests for all the units of Krka Zdravilišča was 317,225. Foreign guests represent less than a third of total guests. The average occupancy was 67% while the average occupancy of our health resort capabilities was 80%.

Consolidated net sales in 2004 amounted to 6 billion SIT.

Krka Zdravilišča will continue to be active in those foreign markets where it has established a good reputation, as well as in others. In 2004, it signed a contract with a Russian health insurance company. Sales in this market were up to our expectations, while for 2005, an increase of guests from this part of the world is planned.

The international project EWP (European Wellness Project), in which Krka Zdravilišča is participating actively, is running well. Within this project, the emphasis was on more intensive marketing, especially in Italy, the Russian Federation, and Israel.

RESEARCH AND DEVELOPMENT

Keeping up with the changes due to EU expansion Our research activity, covering the fields of technology development for active substances, new pharmaceutical forms, and performing all necessary testing and research enabling us to register pharmaceutical, self-medication, and animal health products, is one of Krka's key activities.

Entry of new members into the EU, and associated expectations, were very important in 2004. Changes were most pronounced when it came to carrying out registration procedures and acquiring marketing authorisations for products, particularly for medicinal products.

Our knowledge of regulatory demands and our extensive experience with national registration procedures were upgraded successfully in 2004, by performing MRP (Mutual Recognition Procedure), registration procedures in all member states in western Europe, and in the new member states. The continuity of marketing authorisation acquisition in the countries of western Europe by Krka Pharma Dublin Ltd., was further strengthened by performing registration activities through Krka. At the same time, we kept our advantage of quick reactions in individual target markets by acquiring national marketing authorisations through Krka's subsidiaries or partners, allowing us to be more competitive. So in 2004, we acquired marketing authorisation for the tablets Zalasta® (olanzapine) through Krka Polska Sp. z. o. o., marketing authorisation for the film-coated tablets Vasilip® (simvastatin) through Krka-Rus, and marketing authorisations for Zyllt® (clopidogrel) through Krka-Farma, Zagreb.

Understanding the challenges that intellectual property entails, and the regulatory specifics of each market, enables us to successfully conclude complex development projects and a timely start of marketing for each new product. Among others, we finished development projects, in 2004, associated with the beginning of marketing amlodipine maleate tablets and carvedilol tablets, in west European countries, and of Zalasta® tablets in Poland.

Rapid conclusion of registration procedures in Krka's markets Harmonising regulatory demands with the European Union legislation, in the markets of central and eastern Europe, dictated the rapid conclusion of registration procedures and the creative establishment of new registration strategies. Proof of our correct decisions and the fact that we are able to prepare supporting documentation is the number of granted marketing authorisations. In our traditional markets, we gained marketing authorisations for 365 products, in 576 pharmaceutical forms, in 2004. On behalf of Krka and Krka Pharma Dublin Ltd., and on behalf of our partners in west European countries, we were granted 39 marketing authorisations, particularly noteworthy among which are amlodipine maleate tablets, carvedilol tablets and sertaline tablets.

Number of new marketing authorisations for Krka by regions in 2004

Slovenia		South-East Europe		East Europe		Central Europe	
Products	Forms	Products	Forms	Products	Forms	Products	Forms
16	22	220	355	66	89	63	110

Prescription pharmaceuticals Our primary products, nearly all of which are vertically integrated, prove our development advantages, when Krka manages the product from beginning to end; from the active substance and formulation, to documentation and registration procedure management. In 2004, we were granted the first marketing authorisation for 6 new products in 12 forms.

Among the most important first marketing authorisations of vertically integrated products are the marketing authorisation of Zalasta® tablets in Poland and the one of Zyllt® tablets we acquired at the end of the year in Croatia. With our development, we keep up with Krka's operations in key therapeutic groups. Krka's range of pharmaceuticals for the treatment of the central nervous system was expanded with the marketing authorisation for Triginet® (lamotrigine) in Slovenia in tablet forms of 25 mg, 50 mg, 100 mg and in the form of oral dispersible/chewing tablets of 5 mg. We added Ampril® to our products for the treatment of cardiovascular diseases in Slovenia and Amprilan® in the Czech Republic, a pharmaceutical containing ramipril, which is authorised in tablet forms of 1.25 mg, 2.5 mg, 5 mg and 10 mg.

We were the first generic company to expand our range of pharmaceuticals with losartan as the active substance, which is successfully marketed in our traditional markets under the brand name Lorista®; by the introduction of the film-coated tablets Lorista® HD, for which we were granted marketing authorisation in Slovenia. On behalf of Krka we performed the first MRP procedure. This was done for Mirzaten® tablets (mirtazapine), adding marketing authorisations for more than 12 countries to the national ones acquired in 2003.

We were also successful in developing technologies that enable a prolonged release of the active substance, enabling more patient compliance in the treatment process. In Slovenia, we registered Rawel® SR tablets with prolonged release, containing the active substance indapamide. Our range of Kamiren® (doxazosin) products was expanded with the first marketing authorisation in Slovenia by the new form of tablet, Kamiren® XL, which the patients only have to take once daily. We have also been successfully acquiring marketing authorisations for Fromilid® uno (clarithromycin), with which we expanded our range of products that are marketed under the Fromilid® brand and which are intended for the treatment of infections. We should also mention marketing authorisations in Slovakia, Bulgaria, the Baltic States and Ukraine. Our research keeps pace with demands of the market, enabling us to introduce new orodispersible technologies, especially for psychopharmaceuticals.

Number of prescription pharmaceutical marketing authorisations by Regions in 2004

Slovenia		South-East Europe		East Europe		Central Europe	
Products	Forms	Products	Forms	Products	Forms	Products	Forms
8	14	136	271	23	40	48	94

Self-medication products In 2004, we acquired marketing authorisations for Bilobil®, Septolete® and Daleron® in individual markets. In the Russian Federation, two new products were added to our self-medication range, Bilobil® forte capsules of 80 mg, and Septolete® plus lozenges. In Hungary, Slovakia and Romania, we added Daleron® COLD3 to the already authorised Daleron® tablets and suspension.

In all our traditional markets, we performed procedures for acquisition of marketing authorisations of products from Krka's range of dietary supplements. Noteworthy are the vitamin products Duovit® memo, Duovit® for men, Duovit® for women, Kalcinova® Osteo, and Pikovit® plus.

Number of self-medication product marketing authorisations by Regions in 2004

Slovenia		South-East Europe		East Europe		Central Europe	
Products	Forms	Products	Forms	Products	Forms	Products	Forms
6	6	67	67	37	43	10	10

Animal health products In the field of animal health products, we acquired 30 marketing authorisations for individual products in 31 different forms. Among the most important are Dehinel® Plus tablets, for which we were granted marketing authorisation in 5 countries, Slovenia, Croatia, Romania, the Czech Republic, and Hungary.

Number of new animal health product marketing authorisations by Regions in 2004

Slovenia		South-East Europe		East Europe		Central Europe	
Products	Forms	Products	Forms	Products	Forms	Products	Forms
2	2	17	17	6	6	5	6

Protecting our know-how and intellectual property In the generic industry, the protection of know-how is extremely important. It is this know-how that gives an advantage in the area of morphological structures of active substances, technological processes and pharmaceutical forms, including active substance delivery systems. In 2004, we filed patent claims for 16 new inventions. Based on priority claims, we also filed 5 international patent claims (PCT), while we entered the regional or national phase with 5 international patent claims (PCT).

Krka markets its products under its own brand names. Due to increasing competition, suitable protection of brand names is gaining importance among generic manufacturers. In 2004, we registered 54 brand names in Slovenia and filed claims for 11 international brand registrations and one European (CTM) brand.

Cosmetic products In 2004, development was concentrated primarily on the cosmetic products of Vitaskin®, Fitoval®, Sun Mix® and Corident® Pearl brands, which were launched during this period. For these products, we acquired and supplemented the technical and analytical documentation, which had to be compliant with the new regulatory provisions (PAO, allergens). We also prepared documentation for marketing authorisation and renewal in foreign markets. In future, we will follow global trends in the field of cosmeceutical products, upon which we will complement our existing programme.

Health resorts and tourism Our health resort services follow the global tourist trends and the wishes of our customers. Investments are also directed to support planned development. We pay special attention to our relaxation programmes, and we will continue to invest in our classical treatment and rehabilitation programs which are highly valued by our guests and the experts. We also plan new, high quality services for diagnostics and rehabilitation of sport professionals, recreational sportsmen, and heart patients.

PRODUCT SUPPLY

The Product supply manages the process from demand planning, purchasing of materials, manufacturing active pharmaceutical ingredients (API) and finished products, and quality control to storage and customer supply.

Purchasing area In the purchasing area, we are trying to phase out the classical buyer-seller relationship in favour of partnerships with suppliers. We strive to have two or three suppliers for each key incoming material, enabling us more solid partnerships on one hand, while ensuring safety, reliability and competitive supplies.

In 2004, we purchased 102 million EUR worth of raw materials, packaging materials and finished products, while the share of incoming materials exceeded 95%.

Logistics area From the point of view of logistics, 2004 was an important year for Krka, as we had to adapt our operations to a new environment due to Slovenia's entry into the EU. In the field of logistics, this means more optimised supply and faster distribution of finished products.

Manufacturing area In today's competitive environment, high quality, efficient and responsive production is a prerequisite for any company that wishes to participate in the global market and achieve good business results.

Our quality is confirmed by our business partners and by numerous international inspections.

Production, storage and quality control in all of Krka's plants are conducted according to the demands of good production, storage and laboratory practice, European and international standards and other provisions from the field of technological and technical regulations.

The majority of our production capabilities for production of APIs and finished products is located in the central location in Ločna in Novo mesto. We manufacture our products in three other locations in Slovenia: in Bršljin, Ljutomer and Šentjernej, while we also manage the production capabilities of Krka's subsidiaries in the Russian Federation, Poland and Croatia.

Active pharmaceutical ingredient production API production remains directed towards producing active substances for our own finished products. In our fermentation production, we pay most of the attention to lovastatin, which is partly included in our own finished products and partly chemically transformed into simvastatin, which was one of Krka's leading products in 2004 and is an example of a completely vertically integrated product. An important part of fermentation was the production of animal health products, where we retained our status as one of the leading European manufacturers in 2004.

Chemical production By producing APIs, we successfully coped with the demands of our own pharmaceutical production, regarding both the quantity and the quality. In 2004, most of our capacities in chemical production were used for established APIs, such as enalapril, simvastatin, atorvastatin, amlodipine, carvedilol and lansoprazole. We successfully began synthesis of batches for some new APIs, with the goal of obtaining registration data to enable us to start marketing.

At the same time, we continued the construction of the new chemical synthesis plant, which will start production in 2006.

Finished products production At the Ločna location, production of finished products is performed in six production facilities, where solid, semi-solid, and liquid dosage forms, are produced. Among the solid dosage forms, tablets and coated tablets are prevalent, but we also produce capsules and granules. Our range of liquid dosage forms includes syrups and sterile solutions or suspensions for injection of small (up to 10 ml) to large (up to 100 ml) volumes. The semi-solid pharmaceutical dosage forms include ointments, creams, gels and sterile ointments for the eyes.

Our locations in Bršljin and Ljutomer produce animal health, powdered pharmaceuticals and self-medication pharmaceuticals, while the Šentjernej plant is intended for low volume runs of solid dosage forms.

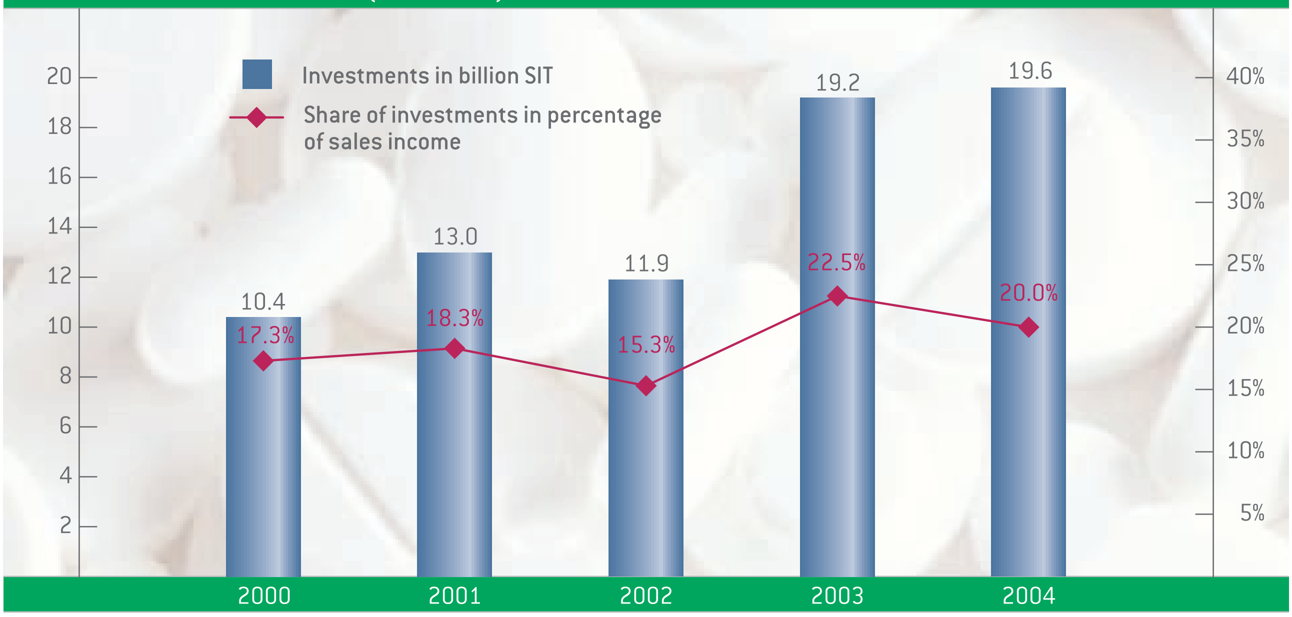
The increase in produced quantities has been most noticeable for solid dosage forms for the past few years. In 1998, Krka started constructing a new plant for production of solid dosage forms, Notol. In 2002, we started production, and in 2004, the plant received additional equipment. At its full capacity, it can produce 2.5 billion tablets per year.

INVESTMENTS

In 2004, Krka spent 19.6 billion SIT on investments, including an update of the information system, thus continuing the extensive investment activities started a year before. The majority of investments were made to update, expand, and equip the plants for final production. At the Krka Group level, the investments totalled 21.2 billion SIT. The higher amount invested by the Group was primarily influenced by the investments in Krka Zdravilišča and the production and distribution centre in Croatia.

In 2004, Krka appropriated 20% of its net sales for investments, while the Krka Group appropriated 18.6% of its net sales.

INVESTMENTS 2002 - 2004 IN KRKA (in billion SIT)



Construction of active pharmaceutical ingredient production plant In 2004, we started construction on a new plant for production of the active pharmaceutical ingredients (API), Synthesis 4. The project is among the biggest investments in Krka's history. The new plant will produce active substances for those products that will represent our most promising sales program.

The production of APIs and finished products will be performed at the same location, enabling us easier and more efficient control of product quality, which is one of the most important elements in pharmaceutical production. The new plant will enable us to adjust production, making it possible for us to follow Krka's sales strategy and market demands.

New liquid raw material storage facility Near the new plant, Synthesis 4, we constructed a new storage facility for liquid raw materials, from which the raw materials will be transferred directly through pipelines to the processes. Other Krka's plants will receive raw materials in smaller packaging, which will be filled in the storage facility.

Overhaul of sterile solution production plant It was finished in 2004, and regular production started in March of the same year. The overhaul makes the plant compliant with the newest good production practice recommendations and other guidelines and standards for sterile production. We also increased production capabilities and range of production filling volumes for each product.

Final construction and equipping of the Notol plant In 2004, we continued to equip the solid dosage form production plant Notol (2nd Phase). We installed technological equipment, which will enable us to achieve 100% equipping of the plant without any pilot work.

We have also completed the investment made to expand our pellet production capacities.

Information system investments In 2004, an intensive overhaul of Krka's information system was underway with the SAP project. The biggest advantage that SAP's integrated solutions bring is an integration of business functions, enabling us transparency and traceability of operations, better information flow, optimisation of business processes, and with that, decreased costs of business, reduction of operating mistakes, and simpler system maintenance.

Transition to the new information system was performed at the beginning of January 2005.

Other important investments In Sarajevo, we constructed a building for our Bosnia and Herzegovina representative office. In Croatia, we added a packaging line to our distribution and production centre Jastrebarsko, thus completing the first construction phase.

In 2005, we will continue to build a plant for the production of the APIs, Synthesis 4, and prepare the necessary documentation for construction of a new ampule production plant. In Jastrebarsko, Croatia, we will complete our investment by constructing a production capability.

QUALITY

Quality, in the broadest sense of the word, is created, maintained, and the responsibility of all employees. In such a way the quality of the kind we perceive and live by, has transcended standards, regulations and instructions, becoming a part of our everyday tasks and a constant companion in our life. Only so can we assure that we respect pharmaceutical and other standards and incorporate their requirements and instructions in our products. This approach supports the achievement of Krka's mission and vision.

Integrated management system The complete system of quality management is described in Krka's "Quality Manual", which regards various aspects of operations with the same principles (quality DPP – GMP, ISO 9001; environment – ISO 14001, workplace security and health protection – OHSAS 18001, foodstuffs safety – HACCP …). Constant improvements, dictated to us by pharmaceutical and other standards on one hand, and our commitment to them on the other, is the force behind progress and a continuous increase in quality in all areas. In 2004, we successfully upgraded and improved the existing management system and implemented it in our dependent companies abroad (the Russian Federation, Poland, Croatia).

Electronic document management "Hard copy documentation" in Krka is giving way to electronic document management. The new Quality Manual, issued at the beginning of 2004, is entirely an electronic document. All other paper documents are being replaced with electronic documents which we manage using the so-called EDMS (Electronic Document Management System) system. An electronic signature is required in the EDMS system and is performed according to the regulations (EU GMP, Annex 11 and FDA GMP, 21 CFR Part 11).

Audits and certifications The checking of the quality system was conducted in 2004 by self-controls with internal audits and external audits by our business partners. The suitability of the quality assurance system is also reviewed and confirmed by regular inspections by domestic and foreign state regulatory bodies.

In 2004, we acquired permission to produce solid pharmaceutical forms in the Beta Šentjernej plant. Permission was granted by the Agency for Medicinal Products and Medical Devices of the Republic of Slovenia. Krka again confirmed the success of its established integrated management system by successfully passing the audit that was performed by SIQ of Ljubljana and included the following standards: ISO 9001:2000, ISO 14001:1996, Codex Alimentarius: 1997 (HACCP) and OHSAS 18001:1999. The difference between this and the previous audits was certification of the foodstuff safety system (HACPP) and the first part of certification for the occupational health and safety system (OHSAS 18001).

Krka is striving for balanced development of this field. Therefore, we pay a great deal of attention to environmental and occupational safety and health (ISO 14001, OHSAS 18001) and to honest and correct public relations. We keep the public regularly informed of our systematic and preventive approach, and of our continuous improvement. The proof that our approach is successful and correct is our right to use the Responsible Care logo, which we receive annually.

EMPLOYEE CARE

Krka is well aware that business success depends on its employees. Therefore, we take systematic steps in order to assure that employees are well chosen, well employed, have opportunities for personal and professional development, including further education and training, enabling the company to achieve the business goals it set, while at the same time helping the individual to grow as a person and become more established in their professional field.

Human resources The Krka Group sales goals for 2004 were only achievable by increasing the number of new employees, especially in Marketing and Sales, and Research and Development. In 2004, 259 new employees joined us, increasing the total number in the group by 5.7%. By the end of the year, Krka Group employed 4,781 people, 2,932 of those in Krka, d. d., Novo mesto in Slovenia and 716 in representative offices abroad, 539 in companies abroad and 594 in Krka Zdravilišča. A total of 1,255 employees worked abroad, representing 26% of all employees in the Group. In Slovenia, the number of employees was reduced by 1.4% in 2004, while in representative offices abroad, the number increased by 26%.

Educational structure In order to perform well on markets at home and abroad, research and development of new products and investing into new capacities makes employees – both specialists and non-specialists - with the highest qualifications, a must. With the new recruits, the percentage of employees with university degrees was increased and represents 39% of all employees of the group. At the end of 2004, 1,849 employees had university degrees. These include 48 PhDs and 137 MScs. The international orientation of our company is confirmed by the fact that 61% of our employees with university degrees work in representative offices abroad.

NUMBER OF EMPLOYEES AS OF 31 DECEMBER 2004	Krka Group		Krka	
Level of education	Number	(in%)	Number	(in%)
PhD	48	1	43	1
MSc	137	3	118	3
University graduate	1,664	35	1,192	33
Higher professional education	151	3	114	3
Vocational college education	206	4	142	4
Secondary school education	1,080	23	812	22
Secondary school vocational education	741	15	561	15
Qualified worker	479	10	468	13
Unqualified worker	275	6	198	6
Total	**4,781**	**100**	**3,648**	**100**

Education To realise strategic goals and the technologically demanding work and development, the company must use extensive and targeted investment into developing knowledge and abilities of its employees. Using its own Training Centre and other training centres in Slovenia and abroad, on average, each employee participated at least four times in various forms of education (with an average duration of 32 hours).

In 2004, 373 of our employees did part-time courses, 143 of these at post-graduate level for MSc or PhD degrees. Education was continued by 32 employees, who entered the new form of certificate-based education in order to achieve a national vocational qualification.

The influx of new experts is supported by 84 scholarships, primarily for pharmacy and chemistry students, and by intensive student relations, enabling them to get to know the company while doing internships or performing thesis research. A special form of encouragement for the most creative are the Krka Awards for young researchers and scientists, which have been awarded 34 times already. The award ceremony also included the 14th international symposium.

Development of key employees We take great care to update the competence profile of Krka's managers, and enable their systematic and high quality recruitment and development within the program of developing key and prospective employees for management and specialist positions. Krka's management school for senior, middle, and lower management enables systematic and efficient personal development and use of new knowledge for effective leadership and employee development.

Organisational climate The Company's success depends on knowledge, creativity and responsibility of each of its employees. We have been creating an environment that encourages professional and personal development of our employees, which is clearly noticeable in our business results. Comparative climate research amongst Slovene companies showed that Krka is well above the average. Especially noteworthy are great loyalty, commitment to quality, and overall employee satisfaction.

Employee care High employee satisfaction level is evident from the low employee turnover level. This is confirmed by the fact that in 2004, 413 employees celebrated work related anniversaries – 10, 20, 30, 35 and 40 years of work with the same company. Despite the fact that the average age of our employees is already 41 years, their absence due to sick leave is relatively rare. This is a result of our conscientious planning to resolve our employees medical and other problems and preventive care for our employees' health. We are well aware of the importance of preventive, recreational and social programs, which is why we offer a variety of sports and cultural events to our employees. Within the Trim klub Krka, employees are encouraged to partake in preventive sporting activities, which have been very popular. All sports activities attract a great number of participants. Also very popular are the cultural events organized by the Culture and Arts Society Krka, which include gallery activities, a choir, a drama club, creative workshops and event attendance organization.

Occupational health and safety One of the basic conditions for placing an employee in a certain position is the knowledge of correct and safe work procedures. From the very beginning, Krka has been monitoring and statistically analysing the accident data. Real accidents that are directly related to working conditions, inadequate equipment and inappropriate qualifications of employees, are decreasing year by year. The LITR indicator that shows how many accidents occurred at the workplace, which required 3 or more days of sick leave per million hours of work, reached 5.85 in 2004. For the European chemical industry, this indicator was 6.18 in 2002. Krka's goal is to halve the number of accidents, as well as the number of lost days due to accidents, in the next few years. This will be achieved by planned employee training – in 2005 we plan to train 1,300 employees.

Creativity
and efficiency

Inventiveness
and initiative
are all
around us.

ENVIRONMENTAL CARE

Sustainable development The basic principles of sustainable development in Krka are performed with great care for the environment, which is an important segment of our business strategy. We are aware that we are a part of a broader community, which enables us to operate well, while at the same time imposes certain limitations. By performing our work, we influence employees, the environment, and the local and broader social community. However, we strive to reduce our burden on the environment and to encourage those activities that contribute towards an improved quality of life. The established environmental management system, which is compliant with ISO 14001 requirements, is of great help to us.

Waste water In 2004, we finished the technological part of upgrading our waste water treatment plant, which will enable us to efficiently remove nitrogen compounds from waste waters, thus reducing the pollution of the Krka river. In 1997 – 2002, we performed extensive laboratory and pilot experiments, which proved a vastly superior efficiency of two-level technology compared with the existing technology, which was sufficient reason to start construction. From April to December 2004, we demolished some out-dated facilities, built a new balancing tank and primary settler, and constructed two additional bioreactors and a biological air cleaner. The new technology will start operating in the first half of 2005.

The upgraded waste water treatment plant and the establishment of new technology has a twofold importance for our sustainable environmental commitment: firstly, by removing nitrogen and phosphorus compounds, it will reduce long-term pollution of the river Krka by eliminating the compounds that stimulate algae growth and, secondly, by enclosing the pre-cleaning and cleaning of air at the biological cleaner, unpleasant odour emission will be eliminated.

The long lasting problems with the Ljutomer plant waste water was solved by co-financing the construction of the central waste water treatment plant in Ljutomer. This enabled the project to proceed, which improves the underground water quality in Ljutomer and Križevci municipalities and a marked improvement of the Ščavnica river water quality. The vast majority of the project was performed in 2004, while the plant is scheduled to start operating in the first half of 2005.

Waste management By constructing a waste-sorting place and purchasing new equipment, we managed to ensure a higher quality of waste management and reduce the transport of individually collected waste. By the thorough sorting of waste, we increased the quantity of recycled waste collected by 16%.

In 2004, we performed pilot experiments on using activated sludge from the waste water treatment plant and wet industrial waste with high organic material content, to produce compost. The results show that this method is an appropriate way of dealing with this waste that will be necessary in the future.

A total energy review of the company In 2004, we finished the total energy review of the company that was started in 2003. This review provided us with guidelines for continuation of projects for effective use of energy, especially in the field of river water use and the central cooling system. We also continued with measures to reduce consumption of river water, decreasing the consumption in comparison to 2003 by 1,294,000 m^3 or 34%. Electrical energy use was reduced by 2%, while natural gas consumption was reduced by 5% in relation to total production. This was helped both by technical improvements and by favourable weather conditions.

Plans The majority of our efforts in 2004 was directed towards increasing the existing and constructing a new energy infrastructure, due to the construction of the new chemical synthesis plant. In 2005, we plan to target the monitoring of energy use at the central cooling system, which will enable us to save approximately 10% of the energy that is used for cooling. Additionally, we plan to finish the project for reduction of river water use, and perform other activities to efficiently use energy.

IT SUPPORT DEVELOPMENT

Introduction of the SAP information system and the PAS (production administration system) In 2003, Krka made the strategic decision to introduce the standard business system, SAP, to support its operations. The reasons were replacements of old systems based on obsolete technology on one hand and, on the other, the introduction of new functional capabilities in information support, enabling higher productivity and transparency (technical maintenance, treasury operations, controlling ...). To support production, we introduced the PAS system, which is used for detailed planning and production process support, both from a technological and material flow point of view. Introduction of the SAP business system demanded concurrent introduction of the PAS system in all production capabilities of the company.

The year 2004 was marked by intensive definitions of the processes that were supported by SAP system, and by other connected systems, such as PAS production management, warehouse management system, forwarding system, human resources, and documentation system. Entire renovation of the processes in financial and material operations of Krka was done, enabling a better overview of the Company's operations using established controls. By introducing the standard SAP system, we introduced an integrated system, avoiding the problems arising from having to maintain several different interfaced systems.

New infrastructure In order to ensure a technological platform that enables a safe and reliable operation, in 2004 we installed new infrastructure both at the level of disk systems and the level of the server environment. Entire infrastructure is redundant and is deployed at two locations using technologies such as server clusters and storage area networks.

Validation of systems Since Krka ensures compliance with strict quality regulations, a critical analysis of the processes was performed in order to determine those processes that are critical from a good manufacturing practice (GMP) point of view. For these processes, extensive additional software tests were performed and documented.

Unified IT environment at home and in representative offices and companies abroad In 2004, we continued with the deployment of a virtual private network for the Krka Group. A unified environment in representative offices and companies abroad enables easy and safe communications and the use of applications that support our employees in promoting our products. Therefore, we updated the application and we will gradually start introducing it in 2005 to all – nearly a thousand – of our employees in the most important markets. We continued the informational development of our companies abroad, enabling us daily information of the operations in our associated companies in Poland, Croatia, the Russian Federation, Macedonia and Serbia.

SOCIAL RESPONSIBILITY

Responsibility to the social community Krka and its people affect the area we work in with our economic development, therefore, one of our key values is responsibility towards the community in which we work and live. We demonstrate this value with respect-based relationships with our employees, business partners, clients, suppliers, owners, neighbours in the local community, and everybody associated with us.

As Krka's primary mission is enabling people to live a healthy and quality life, we do our best to help in both medical and humanitarian fields, with both financial and material contributions. We also channel assets to education, science, culture and sports. We are open to actions in the field of ecology and keeping a clean environment as well as trying to help solve open social issues and raise the overall quality of life.

Sponsorships and donations The company uses 0.8% of its total sales for sponsorships and donations. Nearly all of our assets that are directed towards stimulating non-profit activities are directed to our local and national environment. We also support individual activities outside our borders in our key markets.

We do not pick our sponsorships and donations randomly – we support and help create those projects that reflect our sponsorship policy. We systematically influence Krka's recognition in those activities that reflect the philosophy of a company that is deeply connected to its environment, be it directly, indirectly, or just symbolically.

We are especially closely connected to the local community, which is the source of most of Krka's employees. We prove our affiliation and connection to the broader social community by participating in various projects inside and outside of Slovenia.

Culture and the arts In 1971, Krka established the Culture and Arts Society of Krka, which has grown into an important culture and arts society both in the Dolenjska region and in Ljubljana.

This enables Krka's employees and all others who hold cultural values dear, to attend Krka's visual arts' displays in galleries in Krka's buildings in Novo mesto and Ljubljana. In May, there is the traditional book market, which we organize together with the publishing company Mladinska knjiga. Also, the Krka literary group is active.

Krka's theatre club, which operates in Ljubljana and is a favourite of both thespians and theatre aficionados, has acquired a special reputation in Ljubljana and elsewhere. Krka's mixed choir has the longest tradition of all the above-mentioned clubs, performing many concerts at home and abroad. The choir is well known by the Slovene cultural society, not least due to its CDs.

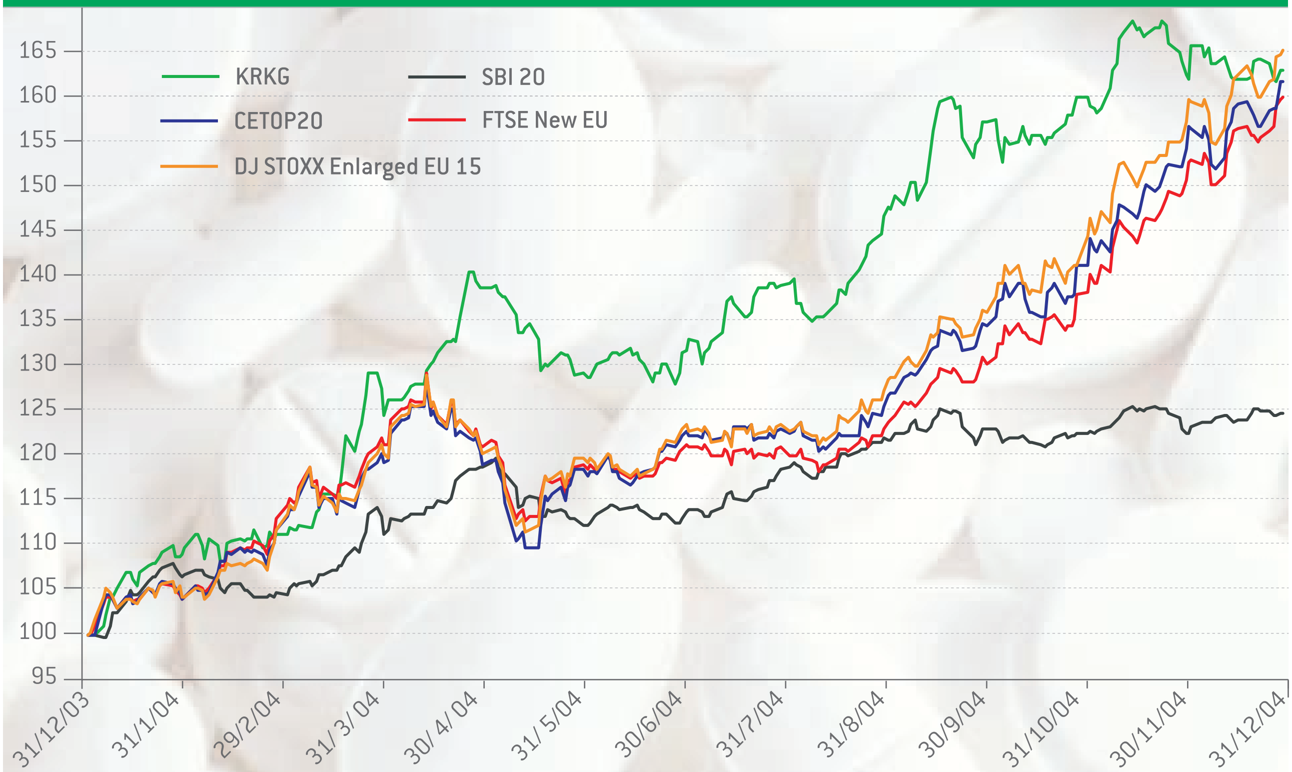
INVESTOR INFORMATION

Share return

SHARE PRICE (in SIT)	2004	2003
1 January	52,024	42,373
Year highest	87,418	52,807
Year lowest	52,024	38,790
31 December	84,482	52,188
Growth	**62%**	**23%**

In 2004, the Krka share price gained 62%, while the Slovenian Stock Exchange Index (SBI 20) gained 25% over the same period.

PERFORMANCE OF KRKA'S SHARE VS COMPARABLE INDICES IN 2004



During 2004 Krka's share outperformed all relevant indices, in which Krka is one of the index constituents:

- the Slovenian Stock Exchange Index (SBI 20),
- the Central European Blue Chip Index of the Budapest Stock Exchange (CETOP20),
- FTSE equity index that includes blue chips of the ten new members of the EU (FTSE New EU),
- new Dow Jones STOXX equity index that includes 15 blue chips of the ten new members of the EU (DJ STOXX Enlarged EU 15).

Among the above-mentioned indices, the Krka's share outperformed SBI 20 index most significantly.

Dividend policy

Krka is following a policy of moderate increase of dividends. The dividends are paid once per year, within 60 days after the Annual General Meeting is held. During the said meeting, shareholders decide on the dividend for the past business year.

SIT	2004	2003
Earnings per share[1]	4.130	2,970
Gross dividend per share[2]	1,200	1,050
Dividend pay out[3]	40%	34%
Dividend yield[4]	**1.4%**	**2.0%**

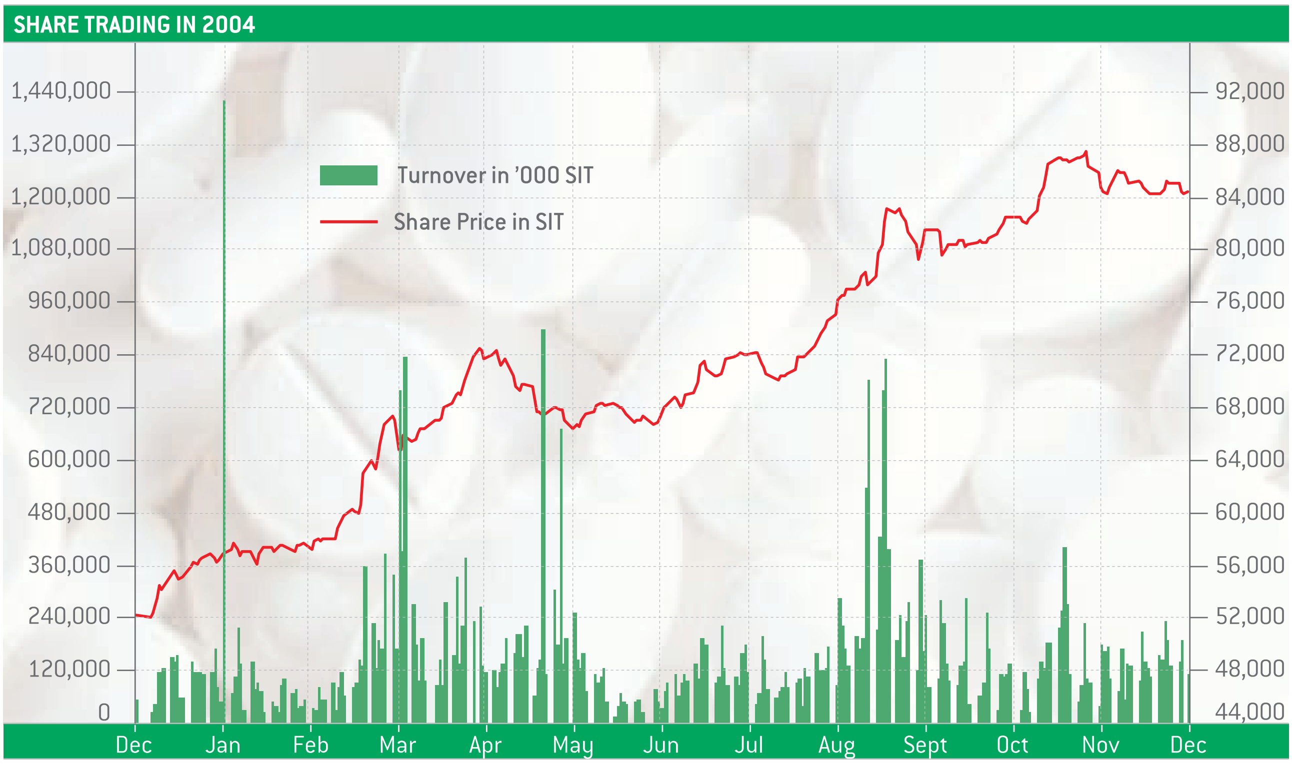
[1] Net profit of majority owners of Krka Group / average number of shares issued in the period
[2] Dividend paid out from previous period earnings
[3] Gross dividend per share / previous period earnings per share
[4] Applying share price on 31 December of each year

The 2005 dividend proposal by the management and supervisory board is included in the Annual General Meeting notice. The final dividend is always pending on the AGM resolution.

Share trading and shareholding

Krka shares have been listed on the Ljubljana Stock Exchange since 1997 and are quoted under the trading symbol KRKG. All issued shares are in the same class (ordinary, transferable without limitations). Each share enables one vote on the general meeting of shareholders. Resident and non-resident investors can trade the share without limitations through brokerage firms and banks that are members of the Ljubljana Stock Exchange.

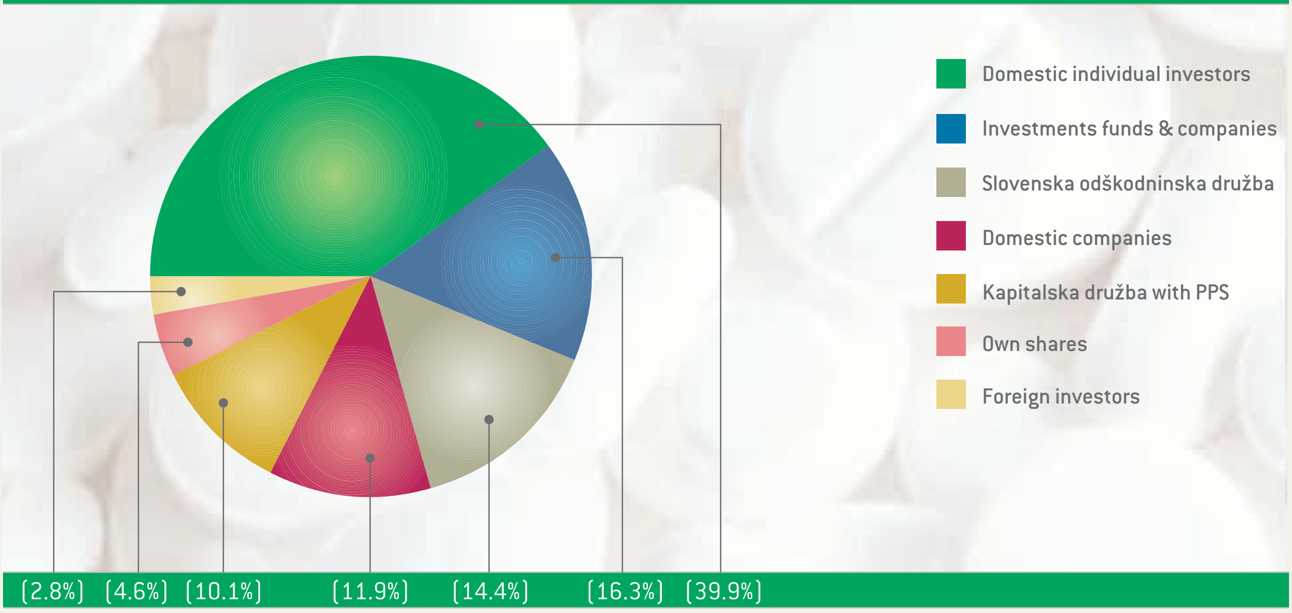
Share trading in 2004



Krka's share is one of the most liquid securities on the Ljubljana Stock Exchange. In 2004 the trading turnover with Krka's share was 40.7 billion SIT (2003: 25.8 billion SIT) and has increased by 58% over 2003. The average daily trade turnover in 2004 was 160 million SIT (2003: 104 million SIT). Compared with 2003, the average daily turnover increased by 54%. The annual trading turnover with Krka's share in 2004 represented 10% of the total annual turnover of the Ljubljana Stock Exchange (2003: 8%) and 16% of Krka's average market capitalisation in 2004 (2003: 17%).

At the end of 2004, the total market capitalisation of Krka was 299.3 billion SIT (2003: SIT 184.9 billion), which is the largest market capitalisation among all companies listed on the Ljubljana Stock Exchange. The market capitalisation of Krka at the end of 2004 represented 10% of the exchange total market capitalisation (2003: 8%).

SHAREHOLDERS' STRUCTURE ON 31 DECEMBER 2004 (in %)



At the end of 2004, the total number of shareholders was 54,911 (2003: 52,370). In 2004, the trend towards more dispersed shareholding, already evident in 2002 and 2003, continued. The ownership of the largest shareholder group – domestic individual investors – increased most significantly in 2004 to 39.9% (2003: 36.9%). The ownership share of Slovenian state financial companies (Slovenska odškodninska družba and Kapitalska družba with Prvi pokojninski sklad – PPS) has not significantly changed in 2004 and was 24.5% (2003: 24.4%). In addition, the treasury shares share in 2004 did not change. The foreign shareholding increased slightly at the end of 2004 to 2.8% (2003: 2.6%).

10 MAJOR SHAREHOLDERS ON 31 DECEMBER 2004	Shareholder domicile	No. of shares held	Share (%)
SLOVENSKA ODŠKODNINSKA DRUŽBA, D.D.	SLOVENIA	510,814	14.42
KAPITALSKA DRUŽBA, D.D.	SLOVENIA	344,186	9.72
NFD 1 DELNIŠKI INVESTICIJSKI SKLAD D.D.	SLOVENIA	132,128	3.73
TRIGLAV STEBER I, DELNIŠKA ID, D.D.	SLOVENIA	75,957	2.14
KD INVESTMENTS D.O.O. POSEBNI VS GALILEO	SLOVENIA	58,344	1.65
BANK AUSTRIA CREDITANSTALT AG	AUSTRIA	42,378	1.20
ZAVAROVALNICA TRIGLAV, D.D.	SLOVENIA	38,830	1.10
KD INVESTMENTS D.O.O. POSEBNI VS RASTKO	SLOVENIA	33,899	0.96
LUKA KOPER, D.D.	SLOVENIA	33,415	0.94
KD ID D.D.	SLOVENIA	31,379	0.89
TOTAL		**1,301,330**	**36.75**

Shareholders Information

Reporting Krka has published the financial calendar on its corporate web pages (www.krka.si). The calendar contains provisional dates of business performance reports releases and other important investor events.

The business performance reports releases are available in Slovene and English on the Ljubljana Stock Exchange portal – SEOnet (http://seonet.ljse.si). The business performance reports are also available on corporate web pages. The summary of the Annual Report and semi-annual report is published in the Delo newspaper.

All business performance reports, financial statements and other relevant information releases are submitted to the Securities Market Agency of the Republic of Slovenia in due time, according to the relevant regulatory provisions.

General Meeting of Shareholders In 2005 the Annual General Meeting (AGM) is foreseen to be held on 17 June 2005. The AGM notice with proposed AGM resolutions and AGM location is released on the Ljubljana Stock Exchange electronic information system (SEOnet) and in the Delo newspaper.

Shareholders recorded in the shareholders' registrar at the record date, published in the general meeting notice, may attend the meeting and vote. The general meeting attendance and voting right is also enabled to shareholders' representatives and agents who file the appropriate power of attorney upon registration to the general meeting.

RISK MANAGEMENT

Foreign exchange risk

The structure of import and export operations resulted in exposure to adverse foreign exchange movements in 2004. The key exchange rates were EUR/SIT and EUR/USD. In addition, we also monitored currencies used by our subsidiaries abroad, namely PLN (exchange rate EUR/PLN), MKD (EUR/MKD), HRK (EUR/HRK) and RUB (USD/RUB). In 2004, we carried on with our foreign exchange risk management policy. We hedged our foreign exchange risk centrally, meaning that we accumulated foreign exchange risk exposures from group entities and then hedged the net risk exposure with a third party (i.e. a bank). We focused primarily on aforementioned exchange rates.

Our net EUR position had no significant influence on our bottom line due to the stability of EUR/SIT exchange rate during the first six months of Slovenia's membership in ERM 2. We expect a similarly negligible effect on our operations in 2005, as we believe that the Bank of Slovenia will keep the EUR/SIT exchange rate within ±2.25% of the parity value during Slovenia's stay in ERM 2.

The ongoing depreciation of USD against EUR was more important to our business due to the net USD position and large exchange rate movements. The EUR/USD exchange rate was extremely volatile in 2004. It reached 1.29 in the beginning of the year only to fall to around 1.20 in the summer. USD weakened towards the end of 2004 and finished the year beyond 1.36.

USD lost most of its value against EUR in the first and last quarters of 2004, which adversely affected our operations through foreign exchange losses resulting from foreign currency transactions and the translation of assets and liabilities. Nevertheless the combined negative effect was lower than in 2003, primarily due to the lower yearly depreciation of the USD against EUR in 2004, and intra-year periods of substantial USD appreciation against EUR. We hedged against the effects of USD depreciation with currency options.

Our net USD position in 2005 will be lower. We hedged the total projected net exposure for 2005 with currency options (i.e. range forwards). These options provide an effective hedge against larger adverse movements of the EUR/USD exchange rate. The package was structured to have zero cost initially.

Foreign exchange movements in other key currencies had no major impact on our operations in 2004. The monetary authorities of Macedonia and Croatia managed to support their respective currencies, keeping their fluctuations against the EUR within relatively tight ranges. RUB and PLN appreciated against USD and EUR, respectively, in 2004.

Interest rate risk

We had six floating rate long-term loans in our balance sheet at the end of 2004. Future interest payments from these loans depend on the 6-month LIBOR for USD and the 6- month EURIBOR.

We define interest rate risk as the uncertainty that is associated with future values of the above-mentioned short-term interest rates that directly determine our liabilities from long-term loans. In order to evaluate our interest rate exposure, we use the effective duration of individual loans. The measure enables us to more correctly identify long-term loans that could induce substantial increases in our future interest charges.

The value of the 6-month LIBOR increased in 2004, closely following the value of fed funds. On the other hand, short-term interest rates within the EMU were more stable, as the European Central Bank did not change its key short-term interest rate (main refinancing rate).

We hedged three long-term loans in 2004 by entering pay-fixed, receive variable interest rate swaps. Two of them are denominated in USD and the other in EUR. These loans represent the majority of all long-term loans in USD and EUR.

Sources of interest rate risk in 2005 and beyond are the remaining uninsured loans, two of which denominated in EUR and one in USD. We will fully repay the latter in the first half of 2006, which makes hedges too expensive despite expected further rises in the 6-month LIBOR for USD in 2005. The reasons for not hedging the EUR denominated loans are the slower expected growth of the 6-month EURIBOR and the relatively high portion of already hedged EUR denominated long-term loans.

Credit risk

We started carrying out credit control and other credit management related activities in the beginning of 2005. By doing so we are decreasing credit risk while at the same allowing for sales value maximisation.

Credit risk management includes credit ratings assignments and credit control for all customers to whom we sell 100,000 EUR worth of products or more. The entire process is completely integrated into SAP. We are taking advantage of the so-called dynamic credit control, which enables us to monitor and limit our credit exposure by taking into account the total amount of open orders, open deliveries, open billing documents and accounts receivable for a customer. We plan to introduce credit risk management in subsidiaries abroad in the beginning of 2006.

Receivables write-offs amounted to less than 1% of total sales in 2004.

Property, business interruption and liability insurance

We divide insurable risks into three main groups: fire and allied perils (property), advanced loss of profit (business interruption), and liabilities. Property insurance includes buildings, equipment, machines and stocks that are subject to natural disasters and other risks. By insuring advanced loss of profit, we provide financial substitutes for the costs and lost profit due to interruption of business processes in case of the appearance of the insured threat. The sum insured consist of the costs of labour, depreciation and other business expenses, and profit from operations for a period of one year.

Liability insurance protects the Company's assets in the case of indemnity claims payments to third parties. It is significantly more complex than property insurance, particularly due to the fact that the awarded third party personal injuries damages vary substantially around the world. Specific for pharmaceutical industry is the liability insurance, which covers the manufacturer's liability for the products, product recalls, clinical trials and environmental impairment. In addition, we also insure the directors and officers liability for the members of the Management and the Supervisory Board.

Group insurance is managed on a corporate level and includes the controlling company, all of its representative offices and subsidiaries abroad (so-called international insurance programs). With Slovenia's entry into the European Union we took advantage of a larger and better developed insurance market, which enabled us to purchase more affordable insurance and to control risks centrally.

Our exposure to various risks is increasing with the growth of our assets and sales, new technologies and expanding markets and product ranges. On the other hand, the need to insure low-severity risks is subsiding, which enables us to introduce deductibles and transfer the risks to non-insurance subjects, thus increasing the level of our own risk retention and self-insurance.

Our risk management systems were verified by two inspections in 2004. A thorough documentation check, presentation of the processes and operations, and a tour of the plant enabled the inspectors to gain an insight into our exposure to various risks and into the functioning of risk management systems in practice. Both inspections' reports confirmed that we are among the safer companies in the pharmaceutical industry.

Internal audit

At the end of the previous year, at the incentive of the Supervisory Board, an Internal Audit service was founded which will concern itself with independent and objective auditing and counselling with the intention of creating added value and improving the Company's operations. It will help to establish certain mechanisms for control and management of business risks.

The internal audit service will help the Management Board achieve its business policy, which includes the mission, vision and goals that the Management Board sets and defines in the Company's four-year Development Strategy.

Partnership and trust

Good relationships grow from mutual understanding.

annual report

2004

financial statements of Krka, d. d., Novo mesto and financial statements of the Krka Group

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1 SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES

1.1 Principles for the preparation of financial statements

The financial statements of Krka, d. d., Novo mesto, (hereinafter called "Krka" or "the Company") and the consolidated financial statements of the Krka Group with notes thereto have been prepared in accordance with the Slovenian Accounting Standards 2001 issued by the Slovenian Institute of Auditors and in compliance with the Companies Act. The fundamental accounting assumptions underlying the preparation of financial statements are: accrual, going concern, and true and fair presentation under a fluctuating value of the euro and individual prices.

Financial statements are prepared in Slovenian tolars, rounded to thousands.

Foreign exchange rate and translation into local currency

Items in financial statements that are denominated in foreign currencies are translated into local currency in the balance sheet and the income statement, using the middle exchange rate of the Bank of Slovenia. Foreign currency translation gains or losses are recognized in income statement under financial revenues or expenses, respectively.

Reporting by business segment and geographical segment (Segment reporting)

In compliance with strategic operations guidelines and with the factors to be considered in determining business segments (mutual therapeutic characteristics of products, the marketing and advertising characteristics, and the risk level), four business segments have been identified within the Company: prescription pharmaceuticals, self-medication products, animal health products, cosmetic products and others. Within the Krka Group, health resorts represent an additional business segment.

There are five geographical segments, each consisting of countries that share a similar level of economic development, purchasing power, similar economic and political conditions, and geographic connection: Slovenia, Central Europe, South-East Europe, East Europe, West Europe and Overseas Markets.

The segment reporting of the Company includes reporting of net sales that could be directly assigned to the reporting segments.

1.2 Accounting policies

The items in the balance sheet, income statement and/or other statements are recorded and valued in compliance with the provisions of Slovenian Accounting Standards, except for those items that may be, in accordance with the respective standards, accounted for at freely selected methods. The following policies have been applied by both the Company and the Group Krka with these items:

Intangible fixed assets

Intangible fixed assets comprise investments in long-term industrial property rights (licences, computer software), long-term deferred costs, and other intangible fixed assets.

An item of intangible fixed assets is initially recognised at cost. In addition to its purchase price, the cost of an intangible fixed asset comprises import duties and non-refundable purchase taxes.

Intangible fixed assets are not revalued due to value increase.

Tangible fixed assets

Tangible fixed assets are initially recognised at cost, less accumulated depreciation computed on the straight-line basis.

It comprises its purchase price, including import duties and non-refundable purchase taxes, as well as directly attributable costs of bringing the asset to working condition for its intended use, especially the costs of delivery and installation costs.

Recognition of an item of tangible fixed assets in the bookkeeping records and the balance sheet is reversed when an asset has been disposed or it has been permanently put out of use and no economic benefits may be expected from its disposal. Gains on disposal of an asset are recorded under operating revenues from revaluation; the carrying amount of the asset is recorded under operating expenses from revaluation.

Subsequent expenditure on an item of tangible fixed assets increases its cost when it increases its future economic benefits in excess of the originally assessed future economic benefits. The subsequent expenditure enabling extension of the useful life of the asset initially reduces the accumulated depreciation.

Expenditure on repair or maintenance of tangible fixed assets is made to restore or maintain the future economic benefits that an enterprise can expect from the originally assessed standard of performance of the asset. As such, it is recognised as an expense when incurred.

Amortisation/Depreciation

The carrying amount of an item of tangible fixed assets and intangible fixed assets is reduced through depreciation or amortisation, respectively.

The depreciation of an item of tangible fixed assets begins on the first day of the month following the beginning of the activity for which it is intended. The amortisation of an item of intangible fixed assets begins when the asset is available for use.

Intangible fixed assets are amortised by the use of the straight-line method of amortisation (single-asset amortisation). Tangible fixed assets are depreciated by the use of the straight-line method of depreciation (single-asset depreciation). Land is not depreciated.

Based on the findings of the qualified appraisers of real estate and equipment as well as on a reassessment of the fair value of relevant assets groups and the intensity of use, the Company changed the amortisation/depreciation rates of the major groups of equipment in 2003. The most significant changes were recorded in the depreciation rates of computer equipment, where the rate was decreased from 50 to 25%. No single depreciation rate is used for transport equipment (33.3%); instead, the depreciation rates range between 5 and 15%. Until 2003, the depreciation rate applied for production equipment was 24.7, whereas now the rates range between 7 and 24%. Depreciation rates applied to other equipment range between 5 and 25% instead of the previously used 20% depreciation rate. Due to a very large number of items within assets that had been capitalised before 2003, the adjustment of depreciation rates took place in 2005, after the implementation of SAP, a new information technology system. Given the technical limitations, the adjustment of the depreciation rates acquired before 2003 will be performed in 2005, after the information technology update. According to the Company’s estimations, the effect of the adjusted depreciation rates upon the annual depreciation amount will not be material, as the carrying amounts of equipment are already rather low.

Investments

Investments of all categories are initially recognized at cost. Long- and short-term investments are recorded separately.

Long-term investments in subsidiaries and associated companies that have been included in the consolidated financial statements are accounted for using the equity method. Under the equity method, the carrying amount of investments in subsidiaries is increased to recognise the controlling Company’s share of net profit of the subsidiary. It is accounted for as an increase in financial revenues of the controlling company. In associated companies, the investment value is increased by the controlling Company’s share of net profit and specific capital revaluation adjustment is formed in the same amount.

Long-term investments in the form of long-term loans are increased by accrued interest or reduced by repaid amounts and by the amounts transferred to short-term investments payable within one year or less. Short-term investments in equity securities of other companies or in debt securities of other companies or the government are initially recognised and measured at cost.

Only the investments in shares of listed companies were verified for their fair market value, whereas the Company did not decide to carry out any value increases.

As the Company considers the information on the interest rates of borrowings is business secret, the interest rates of borrowings have not been disclosed in the Notes to the financial statements.

Derivative financial instruments

Derivative financial instruments are recognised at cost (fair value) in the balance sheet as at transaction day. The manner of disclosure of subsequent changes in fair value depends on whether a derivative financial instrument meets the conditions for the so-called special hedge accounting.

With those derivative financial instruments that meet the above-mentioned criteria, the portion of the gain or loss that is determined to be an effective hedge is recognised directly in equity through a change in the specific capital revaluation adjustment, and the ineffective portion is reported in the income statement.

In the other case, the subsequent changes in fair value are disclosed within capital revaluation adjustments. Any negative values of capital revaluation adjustment whose total value should exceed the previously formed positive changes are directly accounted for in the income statement.

Receivables

Receivables of all categories are initially recognised at amounts recorded in the relevant documents under the assumption that the amounts owed will also be collected. Receivables denominated in foreign currencies are translated into local currency at the balance sheet date, using the middle exchange rate of the Bank of Slovenia. Exchange differences are recognized under financial revenues or expenses, respectively.

Any subsequent increases or decreases in receivables result in an increase or decrease in financial revenues or expenses, respectively. Any increases and decreases must be justified by the relevant supporting documents.

Allowances for bad receivables include allowances for doubtful and disputable receivables due from domestic and foreign customers and additional allowances for bad receivables due from domestic and foreign customers that were formed in accordance with the maturity structure of receivables.

The criteria for allowances for receivables, according to the maturity date and different risk rates in individual markets, are as follows:

	Maturity of receivables (in %)		
	Up to 1/2 a year	From 1/2 to 1 year	Over 1 year
Slovenia	2	10	18
South-East Europe	10	50	90
East Europe	10	50	90
Central Europe	5	27	48
West Europe and Overseas Markets	2	10	18

Allowances for disputable receivables and receivables in litigation due from domestic customers are formed in the amount equal to 70% of these receivables.

Allowances for disputable receivables and receivables in litigation due from foreign customers are formed in the amount equal to 90% of these receivables.

When substantiated by a relevant document, receivables are written off and charged against allowances for receivables.

Allowances for bad receivables do not include any receivables due from Group companies.

On the Krka Group level, the criteria applied for forming allowances for bad receivables were different for certain companies from the ones shown in the table. This is a consequence of an actual risk assessment of certain companies and markets.

Inventories

An inventory unit of raw materials and materials, as well as supporting and packaging materials is valued at cost including all direct cost of purchase. Inventories of materials are carried at fixed prices. Fixed price variances are accounted for in terms of groups of similar items of inventory of materials on a monthly basis, which represent the basis for the calculation of deviations in quantities consumed.

An inventory unit of work in process, semi-finished products and products is valued at direct and indirect cost of production, whereby fixed prices are applied. Fixed price variances are accounted for in terms of groups of similar items of inventory on a monthly basis, which represent the basis for the calculation of deviations in quantities sold.

An inventory unit of merchandise is valued at cost including all direct cost of purchase. Inventories of merchandise are carried at fixed prices. Fixed price variances are accounted for in terms of groups of similar items of inventory of merchandise on a monthly basis, which represent the basis for the calculation of deviations in quantities sold.

Allowances for inventories are formed for inventories ranked as questionable items, non-moving, expired sell-by date or perishable goods.

Inventories are revalued to account for their impairment when their carrying amount, including the amount established using the latest actual purchase prices or acquisition cost, exceeds their sales value, which is to be determined at least at the end of the financial year.

Cash

Cash consists of cash on hand, cash in banks (deposits), and cash in transit. Cash on hand includes banknotes, coins, cheques received, and securities with immediate liquidity. Deposits comprise cash in banks and other financial institutions, which are readily available for payments. Cash in transit denotes cash transferred from the safe deposit box to the account with bank or other financial institution, and which is not recorded as cash in bank on the same day.

Cash in local currency is stated at face value. Foreign currencies are translated into local currency at the exchange rate ruling at the date of receipt thereof.

Foreign currency gains or losses are recorded as financial revenues or financial expenses.

Within the item “Closing balance of cash and cash equivalents” in the cash flow statement, the Company includes securities available-for-sale and currency options as derivative financial instruments.

Capital

The total capital consists of called-up capital, capital reserves, revenue reserves, retained net profit or loss from previous periods, capital revaluation adjustments, and undistributed net profit or loss for the financial year. Share capital is recorded in local currency.

Long-term provisions

Long-term provisions are formed when the Company has a present obligation as a result of a past event, and when it can be estimated that the settlement of a liability will decrease the Company’s assets. In addition to the provisions for ecological improvements and provisions for grants received in 2003, which have both been actually used up already, and are decreased by the depreciation amount, the Company records provisions for lawsuits related to alleged patent infringement. Every year the Company verifies the justification of the formed provisions with a view to the litigation status and the prospects for a favourable or unfavourable lawsuit outcome. The amounts of provisions are defined on the basis of the noted amount of the indemnification claim, or on the basis of anticipated potential amount, if the indemnification claim is not yet disclosed.

Liabilities

Liabilities may be either financial or operating liabilities, short-term or long-term. An item of short-term and long-term liabilities is initially recognised at the amount arising from the relevant documents, provided that its settlement is required by the creditor.

Long-term liabilities are increased by accrued return (interest, other compensation), if an agreement to that effect has been concluded with the creditor. Interest arising from long-term liabilities is accounted for under financial expenses. Long-term liabilities are decreased by amounts paid and potential other settlements, if an agreement to that effect has been concluded with the creditor. Furthermore, they are decreased by the amounts that are transferred to short-term liabilities as they are payable within a year.

Long-term liabilities due to legal entities and natural persons abroad are translated into local currency at the date of transaction. An exchange difference resulting from a change in the exchange rate between the transaction date and the balance sheet date is recorded as an item of financial revenues or financial expenses.

Short-term liabilities may be subsequently increased or decreased, directly or irrespective of amounts paid, by the amount agreed with the creditors. Subsequent increases and decreases of short-term liabilities are accounted for as an increase in the relevant operating and financial expenses (costs).

The Company does not disclose the value of interest for loans given, since it considers this a business secret and since this is also requested by the creditors.

Short-term accrued and deferred items

Short-term deferred costs (expenses) and accrued revenues include short-term deferred costs and accrued revenues. Short-term deferred costs include amounts incurred but not charged against an activity that the enterprise undertakes. Accrued revenues arise when payments have not been received and invoices could not have been issued, but where an enterprise has good reasons to include the revenues in its profit or loss.

Accrued costs (expenses) and deferred revenues include accrued costs and short-term deferred revenues. Accrued costs include costs expected to be incurred and relate to the accounting period for which the results are to be determined. Deferred revenues appear when a company has invoiced or even received payments for services it has agreed to render in the future. Revenues may also be deferred when eligibility to recognize revenues in the profit or loss is doubtful at the moment of sale.

Recognition of revenues

Revenues are recognised if an increase in economic benefits during the accounting period is related to an increase in assets or a decrease in liabilities, and the increase can be measured reliably.

Revenues are recognised when it is probable that cash receipts will flow from them, unless they were achieved on origin.

Operating revenues

Revenues from the sale of products, merchandise and material are recognised at selling prices stated in invoices or other documents, less discounts and rebates approved either when the sale is made or subsequently, including those granted for early payment.

Revenues from the rendering of services, except of services from which financial revenues are earned, are recognised at selling prices of services completed, or at selling prices of services not yet completed in proportion to the stage of completion.

Operating revenues from revaluation arise upon the disposal of tangible and intangible fixed assets, taking into account a previous capital revaluation adjustment due to an increase in value of assets.

Financial revenues

Financial revenues are revenues generated from investment activities. They arise in association with long-term and short-term investments, as well as in association with receivables.

Financial revenues are recognised when statements of account are prepared, regardless of cash receipts associated with them, unless there exists a significant uncertainty as to their amount, maturity date, and collectability.

Interest is accounted for on a time proportion basis, taking account of the principal outstanding and the applicable interest rate.

Dividends from investments in subsidiaries are recognised when the share in net profit is accounted for; dividends from investments in associates are recognised when paid out.

Financial revenues from revaluation arise upon the disposal of long-term and short-term investments, taking into account a previous capital revaluation adjustment due to an increase in value of investments.

Extraordinary revenues

Extraordinary revenues include extraordinary items. They are recorded at nominal amounts.

Recognition of expenses

Expenses are recognised when the outflow of economic benefits in the accounting period is related to decrease in assets or increase in liabilities, and when the amount of expenses can be measured reliably.

Operating expenses

Operating expenses are recognised when expenses are no longer comprised in the value of inventories of products and work in process, and/or when merchandise is sold.

Operating expenses are in principle equal to costs accrued in the accounting period, increased by costs held in the opening balance of inventories of products and work in process and decreased by costs held in the closing balance of inventories of products and work in process. Operating expenses also include cost of merchandise and materials sold.

Operating expenses from revaluation are recognised when the revaluation is performed, irrespective of their effects upon the profit and loss.

Revaluation of costs of depreciation, materials, services and labour costs is recorded as an item of increase in revaluatory operating expenses.

Operating expenses from revaluation are incurred in connection with the impairment of tangible fixed assets, intangible fixed assets, and operating current assets.

Financial expenses

Financial expenses include expenses incurred in connection with financing and investing.

Financial expenses are recognised when accrued, irrespective of related payments.

Financial expenses from revaluation are incurred in connection with the impairment of long-term and short-term investments, and the increase in value of long-term and short-term liabilities.

Extraordinary expenses

Extraordinary expenses include extraordinary items, which are recorded at nominal amount.

Extraordinary expenses also include profit and loss revaluation adjustment, which is formed to maintain the purchasing power of capital measured in Euro, in compliance with the financial concept of equity capital.

Cash flow statement

The cash flow statement has been prepared using the indirect method on the basis of the items in the balance sheet as at 31 December 2004, the balance sheet as at 31 December 2003, the income statement for the year ended 31 December 2004, and the additional data required for the adjustment of inflows and outflows and for the itemisation of significant items.

The revaluation adjustment of economic categories is not stated in the cash flow statement for 2004, since it is not related to receipts and disbursements.

1.3 Transfer to the international financial reporting standards

In compliance with the Union's Regulation on the application of the international accounting standards, those companies in the EU member states that are listed in the organized securities markets in the EU started preparing their consolidated financial statements in accordance with the international financial reporting standards (IFRS) from 1 January 2005 on. Hence Krka is obliged to prepare the consolidated financial statements in accordance with the IFRS from 2005 on, in addition to the financial statements and consolidated financial statements in accordance with the Slovenian Accounting Standards (SAS).

We have already undertaken some of the planned activities so as to enable the controlling company as well as the subsidiaries in Slovenia and abroad to prepare for the transfer to IFRS in a timely manner and as efficiently as possible. Major steps were taken by staff trainings related to the expected transfer to IFRS and the implementation of the SAP information technology system. The biggest advantage of the newly implemented system launched at the beginning of 2005 is the integration of business functions.

Due to the strategic objectives to implement IFRS only after the launch of the new IT system, we have not prepared the financial statements for 2004 in compliance with IFRS. We shall start preparing the financial statements for both the controlling company and the subsidiaries for the financial year 2005, in compliance with the Union's Regulation.

2 FINANCIAL STATEMENTS OF KRKA, d. d., NOVO MESTO

2.1 Auditor's report

KPMG

Auditor's Report

To the Supervisory Board of KRKA, d. d., Novo mesto

We have audited the accompanying financial statements of KRKA, d.d., Novo mesto, consisting of the balance sheet as of 31 December 2004, the income statement, the cash flow statement, the statement of changes in equity, and the notes to financial statements for the year then ended. We have read the management's report on operations. These financial statements and the notes to financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing issued by International Federation of Accountants and other auditing regulations issued by Slovenian Institute of Auditors. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. It also includes an assessment of the compliance of the management's report on operations with the financial statements, which form a constituent part of the annual report. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above give a true and fair view of the financial position of the Company as of 31 December 2004, the results of its operations, its cash flows and the changes in equity for the year then ended in conformity with Slovenian Accounting Standards issued by Slovenian Institute of Auditors.

The management's report on operations is in conformity with the audited financial statements.

KPMG SLOVENIJA,

podjetje za revidiranje, d.o.o.

Sanja Košir Nikašinović, BSc.Ec.
Partner and Certified Auditor

Marjan Mahnič, BSc.Ec.
Managing Partner and Certified Auditor

KPMG Slovenija, d.o.o.

Ljubljana, 21 March 2005

The Auditor's Report has been issued on the Financial Statements and the notes thereto in Slovene.

2.2 Financial statements of Krka, d. d., Novo mesto

2.2.1 Balance sheet

in thousand SIT

	Notes	31 Dec 2004	31 Dec 2003
ASSETS		**151,080,787**	**144,307,300**
FIXED ASSETS		**103,768,324**	**91,977,531**
Intangible fixed assets	2.4.1.1	4,337,508	2,198,129
Tangible fixed assets	2.4.1.2	67,607,520	59,322,654
Long-term investments	2.4.1.3	31,823,296	30,456,748
CURRENT ASSETS		**47,176,096**	**52,270,570**
Inventories	2.4.1.4	18,538,074	21,038,789
Operating receivables	2.4.1.5	25,617,311	28,931,309
Short-term investments	2.4.1.6	1,919,757	1,472,022
Cash in bank, cheques and cash in hand	2.4.1.7	1,100,954	828,450
DEFERRED COSTS (EXPENSES) AND ACCRUED REVENUES		**136,367**	**59,199**
OFF BALANCE SHEET ASSETS	2.4.1.13	18,599,067	17,864,111
LIABILITIES		**151,080,787**	**144,307,300**
CAPITAL	**2.4.1.8**	**106,711,173**	**96,504,036**
Called-up capital		14,170,448	14,170,448
Capital reserves		2,598,736	2,598,736
Revenue reserves		55,230,357	47,820,807
Net profit or loss from previous periods		3,583,658	5,014,357
Net profit or loss for the financial year		9,101,384	5,011,206
Capital revaluation adjustment		22,026,590	21,888,482
PROVISIONS	**2.4.1.9**	**12,025,182**	**13,344,329**
FINANCIAL AND OPERATING LIABILITIES		**30,972,198**	**33,052,605**
Long-term financial and operating liabilities	2.4.1.10	13,786,543	4,509,154
Short-term financial and operating liabilities	2.4.1.11	17,185,655	28,543,451
ACCRUED COSTS (EXPENSES) AND DEFERRED REVENUES	**2.4.1.12**	**1,372,234**	**1,406,330**
OFF BALANCE SHEET LIABILITIES	2.4.1.13	18,599,067	17,864,111

For the expanded version of the balance sheet, refer to Appendix 2.7.1.

2.2.2 Income statement

in thousand SIT

	Notes	2004	2003
Net sales revenues	2.4.2.1	97,977,511	85,387,877
– on domestic market		18,474,969	17,829,803
– on foreign market		79,502,542	67,558,074
Change in inventories		-1,074,999	4,330,415
Capitalised own products and services		44,949	3,839
Other operating revenues	2.4.2.2	4,098,175	303,538
Cost of goods, materials and services	2.4.2.3	-43,518,841	-42,203,707
Labour cost	2.4.2.4	-26,359,527	-22,902,209
Amortisation/depreciation expense	2.4.2.5	-9,750,662	-8,688,127
– amortisation/depreciation expense, and operating expenses from revaluation of intangible and tangible fixed assets		-8,604,262	-7,821,743
– operating expenses from revaluation of current assets		-1,146,400	-866,384
Other operating expenses	2.4.2.6	-3,832,049	-1,303,182
Financial revenues from shares	2.4.2.7	1,545,028	616,050
Financial revenues from long-term receivables	2.4.2.7	404,541	1,952,736
Financial revenues from short-term receivables	2.4.2.7	1,599,680	1,301,347
Financial expenses for long- and short-term investment write-offs	2.4.2.8	-1,816,727	-1,896,149
Interest expenses and financial expenses for other liabilities	2.4.2.8	-2,353,173	-4,149,384
PROFIT OR LOSS FROM ORDINARY ACTIVITIES		**16,963,906**	**12,753,044**
Extraordinary revenues		112,051	112,715
Extraordinary expenses		-10,799	-14,395
PROFIT OR LOSS FROM EXTRAORDINARY ACTIVITIES		101,252	98,320
PROFIT OR LOSS BEFORE TAX		**17,065,158**	**12,851,364**
Income tax	2.4.2.9	-2,963,774	-1,828,952
NET PROFIT OR LOSS FOR THE FINANCIAL YEAR	**2.4.2.10**	**14,101,384**	**11,022,412**

For the expanded version of the income statement, refer to Appendix 2.7.2.

2.2.3 Cash flow statement

in thousand SIT

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Inflows	**100,953,333**	**83,873,137**
Operating revenues	98,307,948	86,272,374
Extraordinary revenues associated with operations	112,051	112,715
Opening less closing operating receivables	2,610,502	-2,498,184
Opening less closing deferred costs (expenses) and accrued revenues	-77,168	-13,768
Outflows	**72,022,595**	**69,945,234**
Operating expenses excluding amortisation (depreciation) expense and long-term provisions	72,032,895	63,904,972
Extraordinary expenses associated with operations	10,799	14,395
Income tax and other taxes not included in operating expenses	1,459,866	2,490,281
Closing less opening inventories	-1,610,308	5,207,438
Opening less closing operating liabilities	95,246	-1,304,129
Opening less closing accrued costs (expenses) and deferred revenues	34,097	-367,723
Net cash from operating activities	**28,930,738**	**13,927,903**
CASH FLOWS FROM INVESTING ACTIVITIES		
Inflows	**303,878**	**396,616**
Financial revenues associated with investing activities (excluding revaluation)	303,878	339,517
Offset decrease in short-term investments (excluding revaluation)	0	57,099
Outflows	**20,894,133**	**17,532,892**
Offset increase in intangible fixed assets (excluding revaluation)	2,670,036	1,576,193
Offset increase in tangible fixed assets (excluding revaluation and contributions in kind)	17,113,317	12,577,745
Offset increase in long-term investments (excluding revaluation)	755,915	3,378,954
Offset increase in short-term investments (excluding revaluation)	354,865	0
Net cash used in investing activities	**-20,590,255**	**-17,136,276**
CASH FLOWS FROM FINANCING ACTIVITIES		
Inflows	**9,752,356**	**9,123,852**
Financial revenues associated with financing activities (excluding revaluation)	260,034	204,679
Offset increase in long-term provisions (excluding revaluation)	0	131,000
Offset increase in long-term financial liabilities (excluding revaluation)	9,492,322	1,799,840
Offset increase in short-term financial liabilities (excluding revaluation)	0	6,988,333
Outflows	**17,305,957**	**5,589,366**
Financial expenses associated with financing activities (excluding revaluation)	1,359,046	1,842,417
Offset decrease in short-term financial liabilities (excluding revaluation)	11,854,143	0
Dividends paid	4,092,768	3,746,949
Net cash used in financing activities	**-7,553,601**	**3,534,486**
CLOSING BALANCE OF CASH AND CASH EQUIVALENTS*	**2,263,745**	**1,529,115**
Net flow for the financial year	786,882	326,113
Effect of the exchange rate fluctuations on cash and cash equivalents	-52,252	87,420
Opening balance of cash and cash equivalents	1,529,115	1,115,582

* The balance in 2004 also includes cash equivalents: securities and options to the value of 1,162,791 thousand SIT. The balance of cash and cash equivalents at the end of 2003 totalled 700,665 thousand SIT.

2.2.4 Statement of changes in equity from 31 December 2003 to 31 December 2004

in thousand SIT

	Called-up capital	Capital reserves	Legal reserves	Reserves for own shares	Statutory reserves	Other revenue reserves	Net profit or loss from previous periods	Net profit or loss for the financial year	General capital revaluation adjustment	Specific capital revaluation adjustment	Total capital
Balance as at 31 December 2003	**14,170,448**	**2,598,736**	**3,592,196**	**4,670,280**	**1,000,000**	**38,558,331**	**5,014,357**	**5,011,206**	**21,724,113**	**164,369**	**96,504,036**
Transfer to capital	0	0	0	0	0	0	73,925	14,101,384	0	138,109	14,313,418
Entry of net profit for the financial year	0	0	0	0	0	0	0	14,101,384	0	0	14,101,384
Other increases in capital components	0	0	0	0	0	0	73,925	0	0	138,109	212,034
Transfer within capital	**0**	**0**	**0**	**0**	**500,000**	**9,459,641**	**51,565**	**-10,011,206**	**0**	**0**	**0**
Distribution of net profit for the financial year based on the decision of Management and Supervisory Boards	0	0	0	0	500,000	4,500,000	0	-5,000,000	0	0	0
Allocation of net profit to additional reserves based on the decision of the annual meeting	0	0	0	0	0	4,959,641	-4,959,641	0	0	0	0
Other reclassifications of capital components	0	0	0	0	0	0	5,011,206	-5,011,206	0	0	0
Transfer from capital	**0**	**0**	**0**	**0**	**0**	**2,550,091**	**1,556,189**	**0**	**0**	**0**	**4,106,280**
Dividends paid	0	0	0	0	0	2,550,091	1,556,189	0	0	0	4,106,280
Other eliminated capital components	0	0	0	0	0	0	0	0	0	0	0
Balance as at 31 December 2004	**14,170,448**	**2,598,736**	**3,592,196**	**4,670,280**	**1,500,000**	**45,467,881**	**3,583,658**	**9,101,384**	**21,724,113**	**302,478**	**106,711,173**

2.2.5 Statement of changes in equity from 31 December 2002 to 31 December 2003

in thousand SIT

	Called-up capital	Capital reserves	Legal reserves	Reserves for own shares	Statutory reserves	Other revenue reserves	Net profit or loss from previous periods	Net profit or loss for the financial year	General capital revaluation adjustment	Specific capital revaluation adjustment	Total capital
Balance as at 31 December 2002	**14,170,448**	**2,566,886**	**3,592,196**	**4,692,359**	**0**	**28,532,769**	**8,555,352**	**5,206,627**	**21,724,113**	**10,532**	**89,051,282**
Transfer to capital	**0**	**9,771**	**0**	**0**	**0**	**0**	**0**	**11,022,412**	**0**	**163,170**	**11,195,353**
Entry of net profit for the financial year	0	0	0	0	0	0	0	11,022,412	0	0	11,022,412
Entry of the amount of specific capital revaluation adjustments	0	0	0	0	0	0	0	0	0	163,170	163,170
Other increases in capital components	0	9,771	0	0	0	0	0	0	0	0	9,771
Transfer within capital	**0**	**22,079**	**0**	**-22,079**	**1,000,000**	**10,025,563**	**192,270**	**-11,217,833**	**0**	**0**	**0**
Distribution of net profit for the financial year based on the decision of Management and Supervisory Boards	0	0	0	0	1,000,000	5,011,206	0	-6,011,206	0	0	0
Allocation of net profit to additional reserves based on the decision of the annual meeting	0	0	0	0	0	5,014,357	-5,014,357	0	0	0	0
Other reclassifications of capital components	0	22,079	0	-22,079	0	0	5,206,627	-5,206,627	0	0	0
Transfer from capital	**0**	**0**	**0**	**0**	**0**	**0**	**3,733,265**	**0**	**0**	**9,334**	**3,742,599**
Dividends paid	0	0	0	0	0	0	3,548,140	0	0	0	3,548,140
Other eliminated capital components	0	0	0	0	0	0	185,125	0	0	9,334	194,459
Balance as at 31 December 2003	**14,170,448**	**2,598,736**	**3,592,196**	**4,670,280**	**1,000,000**	**38,558,331**	**5,014,357**	**5,011,206**	**21,724,113**	**164,369**	**96,504,036**

2.3 Accumulated profit

in thousand SIT

	2004	2003
Compulsory appropriation of net profit		
Net profit for the financial year	**14,101,384**	**11,022,412**
– to cover the loss from previous periods	0	0
– allocation to legal reserves	0	0
– allocation to reserves for own shares	0	0
– allocation to statutory reserves	500,000	1,000,000
Net profit after compulsory appropriation	**13,601,384**	**10,022,412**
– formation of other revenue reserves (decision adopted by the Management and Supervisory Boards)	4,500,000	5,011,206
Surplus of net profit	**9,101,384**	**5,011,206**
Identification of accumulated profit		
Surplus of net profit	9,101,384	5,011,206
+ profit from previous periods	3,583,658	5,014,357
+ decrease in revenue reserves	3,874,858	4,000,000
Accumulated profit	**16,559,901**	**14,025,563**
Appropriation of accumulated profit		
– to dividends		4,055,940
– to other revenue reserves		4,959,641
– to carry forward into the next period		4,959,641
– for other purposes (Supervisory Board's participation in profit)		50,340

2.4 Breakdowns and notes to the financial statements

2.4.1 Balance sheet

2.4.1.1 Intangible fixed assets 4,337,508 thousand SIT

in thousand SIT

	31 Dec 2004	31 Dec 2003
Deferred operating cost	513,329	600,150
Concessions, patents, licences, trademarks, brand names and other rights	3,824,179	1,597,979
Total	**4,337,508**	**2,198,129**

In 2004, the Company acquired intangible fixed assets in the amount of 2,679,560 thousand SIT. Concessions, patents, licences, trademarks, brand names and other rights represent 2,643,463 thousand SIT, the majority (2,004,894 thousand SIT) representing investments in information technology update (i.e. implementing of the SAP system), and deferred operating cost amounts to 85,937 thousand SIT. Intangible fixed assets being acquired (346,973 thousand SIT) represent registration documents in the process of acquisition.

Movement of intangible fixed assets

in thousand SIT

	Deferred operating cost	Concessions, patents, licences, trademarks, brand names and other rights			Intangible fixed assets being acquired	Total
		Licences	Long term operating leases	Investments in foreign fixed assets		
Cost						
Balance as at 31 Dec 2003	**935,098**	**1,120,660**	**99,004**	**295,365**	**728,407**	**3,178,534**
Additions, capitalisations	85,937	2,643,463		328,270	-378,110	2,679,560
Disposals, write-offs	0	-7,942	0	-27,258	0	-35,200
Transfers	0	0	0	-2,326	0	-2,326
Balance as at 31 Dec 2004	**1,021,035**	**3,756,181**	**99,004**	**594,051**	**350,297**	**5,820,568**
Accumulated amortisation						
Balance as at 31 Dec 2003	**334,948**	**400,033**	**52,477**	**192,948**		**980,406**
Additions	0	0	0	0	0	0
Transfers from equipment	0	0	0	0	0	0
Disposals, other	0	-7,941	0	-20,062	0	-28,003
Amortisation	172,758	280,129	5,941	71,829	0	530,657
Balance as at 31 Dec 2004	**507,706**	**672,221**	**58,418**	**244,715**	**0**	**1,483,060**
Carrying amount as at 31 Dec 2003	**600,150**	**720,627**	**46,527**	**102,417**	**728,407**	**2,198,129**
Carrying amount as at 31 Dec 2004	**513,329**	**3,083,960**	**40,586**	**349,336**	**350,297**	**4,337,508**

2.4.1.2 Tangible fixed assets 67,607,520 thousand SIT

in thousand SIT

	31 Dec 2004	31 Dec 2003
Land	2,775,096	2,745,570
Buildings	35,163,053	33,776,916
Equipment	21,750,245	15,749,548
– manufacturing plant and equipment	21,308,738	15,384,441
– other plant and equipment	441,507	365,107
Tangible fixed assets being acquired	7,919,126	7,050,620
– advances for fixed assets	1,356,002	371,967
Total	**67,607,520**	**59,322,654**

In 2004, the Company's investments in tangible fixed assets amounted to 15,890,561 thousand SIT. Major investments include: Notol, the plant for solid dosage pharmaceutical forms; construction of a new plant for the production of pharmaceutical active substances called Synthesis 4 and considered the biggest investment in Krka's history; investment in equipment required for the implementation of the SAP system or in other words modernising Krka's information system; and expansion of sites for palette production in the plant Specifika. As regards the capitalised fixed assets, 25% is represented by buildings and 75% by equipment.

Movement of tangible fixed assets

in thousand SIT

	Land	Buildings	Equipment	Tangible fixed assets being acquired	Advances	Total
Cost						
Balance as at 31 Dec 2003	**2,745,570**	**55,231,869**	**62,121,201**	**6,678,653**	**371,967**	**127,149,260**
Additions	0	0	0	15,890,561	984,035	16,874,596
Capitalisations	20,126	3,913,193	11,178,569	-15,857,988	0	-746,100
Inventory surplus	0	0	16,900	0	0	16,900
Disposals, write-offs	-31,610	-1,017,865	-1,858,282	-148,102	0	-3,055,859
Transfers	41,010	-58,865	20,180	0	0	2,325
Revaluations	0	0	0	0	0	0
Balance as at 31 Dec 2004	**2,775,096**	**58,068,332**	**71,478,568**	**6,563,124**	**1,356,002**	**140,241,122**
Accumulated depreciation						
Balance as at 31 Dec 2003	**0**	**21,454,953**	**46,371,653**	**0**	**0**	**67,826,606**
Capitalisations, extension of the useful life	0	-701,208	-44,892	0	0	-746,100
Disposals, write-offs	0	-478,909	-1,708,424	0	0	-2,187,333
Depreciation	0	2,630,443	5,095,504	0	0	7,725,947
Inventory surplus	0	0	14,482	0	0	14,482
Transfers	0	0	0	0	0	0
Balance as at 31 Dec 2004	**0**	**22,905,279**	**49,728,323**	**0**	**0**	**72,633,602**
Carrying amount as at 31 Dec 2003	**2,745,570**	**33,776,916**	**15,749,548**	**6,678,653**	**371,967**	**59,322,654**
Carrying amount as at 31 Dec 2004	**2,775,096**	**35,163,053**	**21,750,245**	**6,563,124**	**1,356,002**	**67,607,520**

2.4.1.3 Long-term investments 31,823,296 thousand SIT

in thousand SIT

	31 Dec 2004	31 Dec 2003
Interests in Group companies	25,332,414	23,435,550
Long-term receivables from investments in Group companies	440,607	742,942
Interests in associates	0	120,256
Other long-term shares	481,203	628,271
Other long-term receivables from investments	898,792	859,449
Own shares	4,670,280	4,670,280
Total	**31,823,296**	**30,456,748**

Movement of long-term investments

in thousand SIT

	Interests in Group companies	Long-term receivables from invest-ments in Group companies	Interests in associates	Other long-term shares	Other long-term receivables from investments	Own shares	Total
Gross value							
Balance as at 31 Dec 2003	**23,435,550**	**1,049,927**	**120,256**	**635,609**	**865,025**	**4,670,280**	**30,776,647**
Increase	2,837,458	0	0	1,000	185,899	0	3,024,357
Decrease	1,292,147	582,969	120,256	151,468	148,702	0	2,295,542
Revaluation	351,553	-26,351	0	3,656	13,454	0	342,312
Balance as at 31 Dec 2004	**25,332,414**	**440,607**	**0**	**488,797**	**915,676**	**4,670,280**	**31,847,774**
Value adjustment							
Balance as at 31 Dec 2003	0	306,985	0	7,338	5,576	0	319,899
Increase	0	0	0	256	14,569	0	14,825
Decrease	0	306,985	0	0	3,261	0	310,246
Revaluation	0	0	0	0	0	0	0
Balance as at 31 Dec 2004	**0**	**0**	**0**	**7,594**	**16,884**	**0**	**24,478**
Carrying amount as at 31 Dec 2003	**23,435,550**	**742,942**	**120,256**	**628,271**	**859,449**	**4,670,280**	**30,456,748**
Carrying amount as at 31 Dec 2004	**25,332,414**	**440,607**	**0**	**481,203**	**898,792**	**4,670,280**	**31,823,296**

• Interests in subsidiaries

	Ownership share (in %) 31 Dec 2004	Share capital (in thousand SIT) 31 Dec 2004	Value of interests in Group companies (in thousand SIT)	
			31 Dec 2004	31 Dec 2003
KRKA ZDRAVILIŠČA, d. o. o., Novo mesto	100	3,535,466	11,582,889	10,882,224
KRKA-FARMA d. o. o., Zagreb, Croatia	100	2,398,435	2,473,082	1,594,657
KRKA-FARMA DOOEL, Skopje, Macedonia	100	182,976	191,900	192,341
KRKA KOZMETIKA DOOEL, Skopje, Macedonia	0	0	0	27,613
KRKA-POLSKA, Sp. z o. o., Warsaw, Poland	100	1,029,236	4,751,526	3,650,101
KRKA Aussenhandels GmbH, Munich, Germany	100	61,289	99,943	95,554
OOO "KRKA-RUS", Istra, Russian Federation	100	7,117,133	6,045,446	6,824,588
OOO "KRKA FARMA", Sergiev posad, Russian Federation	100	833	103,562	86,146
KRKA ČR, s. r. o., Prague, Czech Republic	100	788	788	727
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	100	240	15,819	0
KRKA Sverige AB, Stockholm, Sweden	100	3,996	3,996	0
KRKA Magyarország Kft, Budapest, Hungary	99	12,304	10,317	10,075
HELVETIUS-S.R.L., Trieste, Italy	80	12,371	46,370	62,611
"KRKA-FARMA" D. O. O. NOVI SAD, Serbia and Montenegro	60	343	6,776	8,913
Total			**25,332,414**	**23,435,550**

Shortened company names are used in the text below.

In 2004, the investment in the associated company Golf Grad Otočec, and the land (i.e. investment property) including the Krka Hotel were transferred to Krka Zdravilišča, as a contribution in kind, amounting to 878,369 thousand SIT.

A new company started its operation in Sweden: Krka Sverige AB, Stockholm, with a share capital amounting to 3,996 thousand SIT. Capital increase was carried out in the companies Krka-Rus in the amount of 184,272 thousand SIT and Krka-Farma, Zagreb in the amount of 880,854 thousand SIT. Other changes in ownership shares result from the profits or losses recorded in the individual Group companies.

In addition, investments in Group companies were increased by the accrued return of the Group companies in the total amount of 890,015 thousand SIT, and decreased by the following amounts: 740,303 thousand SIT of accrued losses of Group companies, 217,248 thousand SIT of dividends paid, 27,613 thousand SIT referring to the sale of Krka Kozmetika DOOEL, Skopje, and 48 thousand SIT related to the elimination of tangible fixed assets of Krka-Rus, Istra. Pursuant to Article 57, Paragraph 1, the Companies Act, the profit/loss for the financial year as per individual subsidiaries has not been disclosed.

As at 31 December 2004, long-term investments in Group companies were revalued using the middle exchange rate of the Bank of Slovenia, resulting in financial expenses in the amount of 248,294 thousand SIT (Krka Farma, Sergiev Posad and Krka-Rus, Istra, Krka-Farma, Zagreb, Krka Pharma Dublin Limited, Dublin, Krka-Farma DOOEL, Skopje, Krka-Farma, Novi Sad) and in financial revenues in the amount of 599,847 thousand SIT (Helvetius, Trieste, Krka-Polska, Warsaw, Krka Aussenhandels, Munich, Krka ČR, Prague, Krka Magyarorszag Kft, Budapest, and Krka Sverige AB, Stockholm).

• Long-term receivables from investments in Group companies

in thousand SIT

	31 Dec 2004	31 Dec 2003
OOO "KRKA-RUS", Istra, Russian Federation	440,607	416,607
KRKA-FARMA d. o. o., Zagreb, Croatia	0	111,709
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	0	214,626
Total	**440,607**	**742,942**

The Company granted loans to subsidiaries for the continuation of investment projects and for financing current operations. Loans are denominated in euros or dollars and are granted for a period up to five years, mostly with fixed interest rates. Repayments of interest and principal are made quarterly or semi-annually. Last instalments are due in 2005 and 2007.

A part of loans in the amount of 113,150 thousand SIT, due in 2005 (Krka-Farma, Zagreb), is recorded under short-term investments.

No long-term loans were granted by the Company in 2004.

• Interests in associates

	Share in capital (in %)	31 Dec 2004 (in thousand SIT)	31 Dec 2003 (in thousand SIT)
Golf Grad Otočec, d. o. o.	25	0	120,256
Total		**0**	**120,256**

In 2004, the long-term investment in the associated company Golf Grad Otočec, and in land (i.e. investment property) were decreased. They were transferred, including the Krka Hotel, to Krka Zdravilišča.

• Other long-term receivables from investments

in thousand SIT

	31 Dec 2004	31 Dec 2003
Long-term loans granted to employees	898,792	859,449
Total	**898,792**	**859,449**

In conformity with internal acts the Company grants long-term loans to its employees, mainly for housing, scholarship, insurance period repayment purposes, and for moving abroad. Loans are awarded in euros, bearing a fixed 3% annual interest-rate.

- **Own shares**

As at 31 December 2004, the item includes 162,662 own shares in the total amount of 4,670,280 thousand SIT. For other notes related to own shares, refer to the section on capital – reserves for own shares.

2.4.1.4 Inventories 18,538,074 thousand SIT

in thousand SIT

	31 Dec 2004	31 Dec 2003
Raw materials and other material	5,746,953	6,191,291
Work-in-progress	3,937,437	4,214,701
Products	8,425,425	9,749,512
Merchandise	428,259	883,225
Advances for inventories	0	60
Total	**18,538,074**	**21,038,789**

Raw materials and other material represent 31%, work-in-progress 21%, and products and merchandise represent 48% of the total inventories. In 2004, the value of inventories decreased by 12% against 2003. The high balances of inventories as at the end of 2003 is a result of preparations for an intensive sale on the West-European markets in the first quarter of 2004, in particular the sale of two new drugs for the treatment of cardiovascular diseases, namely amlodipine maleate and carvedilol tablets.

In addition, the level of inventories is influenced by the wide range of products, numerous markets, increasingly specific demand of individual clients, and safety stocks for the Company's core products, for reasons of flexibility and reliability in delivery.

2.4.1.5 Operating receivables 25,617,311 thousand SIT

in thousand SIT

	31 Dec 2004	31 Dec 2003
Long-term operating receivables	6,829	6,012
– long-term operating receivables due from Group companies	6,089	6,012
– long-term operating receivables due from other entities	740	0
Short-term operating receivables	25,610,482	28,925,298
– short-term operating receivables due from Group companies	13,571,146	14,929,069
– short-term trade receivables	11,001,850	12,338,162
– short-term operating receivables due from other entities	1,037,486	1,658,067
Total	**25,617,311**	**28,931,309**

The Company records an 11% decrease in operating receivables over 2003. The decrease results mostly from lower short-term trade receivables, due to prompt payments received from customers in West Europe, the region with the largest rise in sales in 2004.

• **Short-term operating receivables due from Group companies**

in thousand SIT

	31 Dec 2004	31 Dec 2003
KRKA-POLSKA, Sp. z o. o., Warsaw, Poland	4,360,100	5,274,133
KRKA-FARMA d. o. o., Zagreb, Croatia	6,309,727	6,733,780
KRKA-FARMA DOOEL, Skopje, Macedonia	1,299,836	1,307,060
OOO "KRKA FARMA", Sergiev posad, Russian Federation	589,732	813,131
OOO "KRKA-RUS", Istra, Russian Federation	495,171	21,240
"KRKA-FARMA" D. O. O. NOVI SAD, Serbia and Montenegro	463,957	411,646
Operating receivables due from other Group companies	52,623	368,079
Total	**13,571,146**	**14,929,069**

• **Short-term trade receivables**

	Gross value	Allowances	Net value 31 Dec 2004	Net value 31 Dec 2003
Short-term trade receivables – domestic customers	3,398,731	-38,910	3,359,821	1,592,028
Short-term trade receivables – foreign customers	8,263,511	-621,482	7,642,029	10,746,134
Total	**11.662,242**	**-660,392**	**11.001,850**	**12,338,162**

The Company forms allowances for receivables in conformity with criteria indicated in the chapter about accounting policies and based on the risk of individual markets and customers as well as the actual repayability of receivables in the past. The criteria have not changed from the ones applied in 2003.

Short-term trade receivables are not secured. According to the ageing structure of short-term trade receivables as at 31 December 2004, 91% of receivables are past due by six months, 2% of receivables are past due from six months to one year, and 7% of receivables are past due for over a year.

• **Short-term operating receivables due from other entities**

The major part of short-term operating receivables due from other entities refers to the Company's receivables arising from VAT refund in the amount of 1,037,486 thousand SIT.

2.4.1.6 Short-term investments 1,919,757 thousand SIT

Short-term investments in the amount of 1,919,757 thousand SIT comprise 535,486 thousand SIT of short-term interests in Group companies and 1,384,271 thousand SIT of short-term loans to other entities.

- **Short-term interests in Group companies**

Short-term interests in Group companies include a short-term loan granted to Krka Zdravilišča in the amount of 329,500 thousand SIT, 113,150 thousand SIT of repayments of long-term loans granted to subsidiaries that are payable in 2004, and 92,836 thousand SIT of interest on loans granted to Group companies.

- **Short-term investments to other entities**

in thousand SIT

	Gross value	Allowances	Net value 31 Dec 2004	Net value 31 Dec 2003
Other shares, available-for-sale	786,863	-17,373	769,490	225,694
Short-term loans granted	269,826	-32,360	237,466	232,085
Other securities, available-for-sale	375,928	0	375,928	470,772
Interest on short-term loans	1,387	0	1,387	2,807
Total	**1,434,004**	**-49,733**	**1,384,271**	**931,358**

Commission paid to brokerage houses for the purchase and sale of securities in 2004 amounted to 13,778 thousand SIT. The Company recorded 11,841 thousand SIT of loss and 71,004 thousand SIT of profit in the sale of securities in 2004. With those short-term securities, where the Company established that their market value was lower from their purchase cost, an impairment of investments was carried out in the amount of 13,173 thousand SIT. The total revenues from dividends received in 2004 amounted to 7,910 thousand SIT.

The last foreign currency options that had been purchased in 2003 matured in June 2004. Until mid-year, the Company recorded 228,275 thousand SIT of financial revenues from due premiums paid, and 241,322 thousand SIT of financial revenues from due options encashed. As at the balance sheet date, the value of options was recorded at 287,265 thousand SIT.

During the year, the Company received 10,712 thousand SIT of interest on bonds, treasury bills and deposit certificates.

2.4.1.7 Cash in bank, cheques and cash in hand 1,100,954 thousand SIT

in thousand SIT

	31 Dec 2004	31 Dec 2003
Cash in hand and cheques received	7,970	7,448
Cash in bank	1,092,984	821,002
Total	**1,100,954**	**828,450**

2.4.1.8 Capital — 106,711,173 thousand SIT

in thousand SIT

	31 Dec 2004	31 Dec 2003
I. Called-up capital	14,170,448	14,170,448
1. Share capital	14,170,448	14,170,448
II. Capital reserves	2,598,736	2,598,736
III. Revenue reserves	55,230,357	47,820,807
1. Legal reserves	3,592,196	3,592,196
2. Reserves for own shares	4,670,280	4,670,280
3. Statutory reserves	1,500,000	1,000,000
4. Other revenue reserves	45,467,881	38,558,331
IV. Net profit or loss from previous periods	3,583,658	5,014,357
V. Net profit or loss for the financial year	9,101,384	5,011,206
VI. Capital revaluation adjustments	22,026,590	21,888,482
1. General capital revaluation adjustment	21,724,113	21,724,113
2. Specific capital revaluation adjustment	302,477	164,369
Total	**106,711,173**	**96,504,036**

In 2004, the value of capital increased to 106,711,173 thousand SIT. The increase was due to the net profit for 2004 in the amount of 14,101,384 thousand SIT, to the subsequently enforced decrease in corporate income tax amounting to 73,925 thousand SIT, and to the increase in capital revaluation adjustment amounting to 138,109 thousand SIT. On the other hand, the decrease was due to dividends paid and other payments made in accordance with the resolution adopted by the shareholders on 1 July 2004 in the amount of 4,106,280 thousand SIT.

Transfers within capital result from the allocation of net profit or loss from previous periods and net profit or loss for the financial year to other revenue reserves in the amount of 4,500,000 thousand SIT and from forming additional statutory reserves in the amount of 500,000 thousand SIT.

- **Share capital**

Share capital of the Company consists of 3,542,612 ordinary registered shares at par value of 4,000 SIT. One class of shares is considered, hence this represents also the weighted average number of ordinary shares. The first and only issue of shares was carried out in 1995.

Net profit per share amounts to 3,980.50 SIT. The calculation takes into account the total number of shares issued by the Company.

- **Capital reserves**

In the process of ownership transformation, the Company formed reserves in conformity with the regulations effective at that time. As at 31 December 2002, their revaluation was recorded in the amount of 2,926,164 thousand SIT. The part of these reserves that were formed from profit amounts to 396,632 thousand SIT and is recorded in the balance sheet under “other revenue reserves”. The remaining part of reserves, formed on the basis of a special regulation and not from profit, amounts to 2,529,532 thousand SIT and is recorded in the balance sheet under “capital reserves”. The latter were in 2002 increased by 7,585 thousand SIT and in 2003 by 9,771 thousand SIT, e.g. by the difference between the book value of own shares and their value on disposal. In 2002, capital reserves further increased by the value of disposed own shares amounting to 22,768 thousand SIT, and by 22,079 thousand SIT in 2003.

- **Revenue reserves**

Legal reserves

The Company formed legal provisions in the amount of 10% of its share capital. As at the year-end, the value of reserves together with their revaluation amounted to 3,592,196 thousand SIT.

Reserves for own shares

As at 31 December 2004, own shares include 162,662 of Krka’s own shares. As at the balance sheet date, the own shares’ par value was recorded at 650,648 thousand SIT or 4.6% of the share capital’s value.

The revaluation of own shares as at 31 December 2004 took into account the market value as at 29 December 2001, namely 28,711.56 SIT. On the last trading day of 30 December 2004, the quotation per share amounted to 84,482 SIT, which is 180% higher from the carrying value (30,122 SIT). Accordingly the fair value of own shares amounted to 13,742,011 thousand SIT.

Other revenue reserves

Part of the accumulated profit of 2003 amounting to 4,959,641 thousand SIT was allocated to other revenue reserves, in compliance with a resolution of the annual meeting adopted on 1 July 2004.

- **Net profit or loss from previous periods**

Net profit from previous periods recorded in the amount of 3,583,658 thousand SIT represents a part of accumulated profit according to the annual meeting resolution in 2003.

- **Net profit or loss for the financial year**

In 2004, the Company generated a profit in the amount of 14,101,384 thousand SIT. In conformity with the legal provisions on the obligatory use of the net profit and in conformity with the statutory provisions, 500,000 thousand SIT were allocated to statutory reserves. In accordance with the resolution of the Management and Supervisory Boards, 4,500,000 thousand SIT of net profit was allocated to other revenue reserves, and 9,101,384 thousand SIT was included in the item of net profit for the financial year.

- **Capital revaluation adjustments**

The general capital revaluation adjustment refers to previous periods (revaluation adjustment of share capital).

As at the balance sheet date, the specific capital revaluation adjustment is recorded at 302,477 thousand SIT and refers mainly to revaluation of other financial instruments.

2.4.1.9 Provisions 12,025,182 thousand SIT

	Balance as at 31 Dec 2003	Formation	Utilisation and reversal	Balance as at 31 Dec 2004
Other provisions				
– for lawsuits	13,028,837	2,471,633	3,736,805	11,763,665
– for ecological restoration	202,113	0	41,088	161,025
– from donations received	113,379	0	12,887	100,492
Total	**13,344,329**	**2,471,633**	**3,790,780**	**12,025,182**

In 2004, long-term provisions decreased compared to the end-year 2003 by 1,319,147 thousand SIT. The change includes the reversal of the provisions for the enalapril lawsuit in Slovenia in the amount of 3,736,805 thousand SIT as well as additional provisions formed in the amount of 2,471,633 thousand SIT for other outstanding lawsuits related to the alleged patent infringements in connection with drugs for cardiovascular diseases.

Other changes in the balance of provisions refer to a decrease in provisions for ecological restoration and provisions from donations received in 2003 from the Ministry of the Economy for the investment in the Šentjernej plant and in the distribution centre in the Russian Federation. They are decreased by accumulated depreciation of fixed assets, for which provisions were formed. The depreciation amount of 12,886 thousand SIT is recorded under the item utilisation.

In addition to the lawsuits regarding drugs for cardiovascular diseases, the Company has another outstanding lawsuit in the field of intellectual property but not relating to drugs. Considering the course of action, the Company may face an outflow of funds although the amount of the upcoming liability cannot be reliably assessed. Nevertheless, the possible liability shall not have a significant impact on the operating result according to Company's estimations.

2.4.1.10 Long-term financial and operating liabilities 13,786,543 thousand SIT

Compared to year-end 2003, the structure of financial and operating liabilities changed significantly, as the Company raised long-term loans instead of short-term ones. Hence long-term liabilities increased substantially (from 3.1 to 9.1%) and short-term liabilities decreased (from 19.8 to 11.4%); the above-mentioned changes mainly refer to financial liabilities.

in thousand SIT

	31 Dec 2004	31 Dec 2003
Long-term financial liabilities to banks	13,699,841	4,387,118
Long-term financial liabilities to other entities	86,702	122,036
Total	**13,786,543**	**4,509,154**

The short-term portions of long-term loans that are payable within the next financial year in the amount of 1,426,068 thousand SIT are accounted for under short-term financial liabilities.

- **Long-term financial liabilities to banks**

in thousand SIT

	31 Dec 2004	31 Dec 2003
Long-term loans raised at domestic banks	11,397,392	2,107,426
Long-term loans raised at foreign banks	2,302,449	2,279,692
Total	**13,699,841**	**4,387,118**

The increase in long-term financial liabilities is mostly due to the increase in the balance of long-term loans obtained from domestic banks. Long-term loans were provided by three domestic and four foreign banks, mostly in euros and dollars, for a period of up to seven years. They are earmarked for financing of capital expenditures and current assets.

In February 2004, the Company raised a major loan at a domestic bank. The loan is payable in seven years, with a two-year grace period. It was raised to continue the investment cycle, due to an increase in short-term loans, and due to a relatively low balance of long-term debts. The loan was also earmarked for other needs related to current assets.

In August 2004, the Company raised two new loans at a foreign bank. The loans will mature in seven years and are earmarked for an investment in a purifying plant. Upon the end of the project and the assessment as to its appropriateness, 12% of principal will be reimbursed directly by EBDR.

Long-term loans obtained from banks are neither secured by mortgages nor by banks guarantees. The Company issued bills of exchange for some of the loans and they are recorded among off balance sheet items. The Company hedged three long-term loans that form the major part of the borrowed amount by using interest rate swaps.

2.4.1.11 Short-term financial and operating liabilities 17,185,655 thousand SIT

in thousand SIT

	31 Dec 2004	31 Dec 2003
Short-term financial liabilities to banks	1,601,791	12,570,386
Short-term operating liabilities from advances	503,246	217,647
Short-term trade payables	6,075,658	5,676,635
Short-term financial and operating liabilities to Group companies	1,710,155	3,930,618
Short-term financial and operating liabilities to other entities	7,294,805	6,148,165
Total	**17,185,655**	**28,543,451**

• Short-term financial liabilities to banks

in thousand SIT

	31 Dec 2004	31 Dec 2003
Short-term loans from domestic banks	897,340	10,024,850
Short-term loans from foreign banks	528,728	2,452,297
Interest payable	175,723	93,239
Total	**1,601,791**	**12,570,386**

The balance of raised short-term loans at end-year is lower by 78% from the balance recorded at the beginning of the financial year. The decrease is mostly due to the fact that long-term loans were raised and short-term loans were paid-off.

• Short-term trade payables

in thousand SIT

	31 Dec 2004	31 Dec 2003
Payables to domestic suppliers	4,265,694	3,956,841
Payables to foreign suppliers	1,809,964	1,719,794
Total	**6,075,658**	**5,676,635**

• Short-term financial and operating liabilities to Group companies

in thousand SIT

	31 Dec 2004	31 Dec 2003
HELVETIUS-S. R. L.,Trieste, Italy	1,605,798	1,668,060
KRKA Aussenhandels GmbH, Munich, Germany	0	1,848,898
KRKA-FARMA d. o. o., Zagreb, Croatia	58,434	325,805
KRKA ZDRAVILIŠČA, d. o. o., Novo mesto	15,507	30,328
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	2,877	57,527
KRKA-POLSKA, Sp. z o. o., Warsaw, Poland	27,539	0
Total	**1,710,155**	**3,930,618**

- **Short-term financial and operating liabilities to other entities**

in thousand SIT

	31 Dec 2004	31 Dec 2003
Short-term financial liabilities due to other entities	3,154,657	4,039,854
Short-term operating liabilities:	4,140,148	2,108,311
- short-term operating liabilities to the state	1,854,637	407,618
- payables to employees	2,159,970	1,587,565
- short-term operating liabilities related to profit appropriation	111,183	97,673
- other short-term liabilities	14,358	15,455
Total	**7,294,805**	**6,148,165**

Short-term operating liabilities to the state mainly include corporate income tax amounting to 1,347,211 thousand SIT.

Short-term financial liabilities to other entities include short-term loans obtained from domestic companies in the amount of 3,009,395 thousand SIT and interest on these loans in the amount of 145,262 thousand SIT. The loans were raised in tolars for one to six months, for an indefinite period, or as money at call. Loans are not secured.

2.4.1.12 Accrued costs (expenses) and deferred revenues 1,372,234 thousand SIT

in thousand SIT

	Balance as at 31 Dec 2003	Utilisation	Formation	Balance as at31 Dec 2004
Short-term deferred revenues – subsidiaries	482,773	485,853	156,607	153,527
Short-term deferred revenues – other entities	482,057	83,237	527,537	926,357
Short-term accrued costs (expenses) – other entities	441,500	439,546	290,396	292,350
Total	**1,406,330**	**1,008,636**	**974,540**	**1,372,234**

Short-term deferred revenues incurred in connection with subsidiaries includes 151,987 thousand SIT of contractually based discounts that shall be granted on products sold to subsidiaries in 2004, and 1,540 thousand SIT of interest from long-term loans paid in advance.

Short-term deferred revenues incurred in connection with other entities include 926.357 thousand SIT of contractually based discounts that shall be granted on products sold to other entities in 2004.

2.4.1.13 Off balance sheet items 18,599,067 thousand SIT

in thousand SIT

	31 Dec 2004	31 Dec 2003
Bills of exchange issued as collateral for loans raised	13,453,199	13,023,633
Guarantees given to Group companies for loans raised	2,727,688	3,422,001
Other guarantees given	377,479	100,387
Other	2,040,701	1,318,090
Total	**18,599,067**	**17,864,111**

2.4.2 Income statement

Income statement has been prepared in terms of type of revenues and expenses. Additionally, cost items are also presented in terms of operating units based on cost accounting data.

Cost items in terms of operating units **84,536,078 thousand SIT**

in thousand SIT

	2004	2003
Production cost of goods sold	44,047,215	39,662,656
Development cost	8,372,923	7,003,305
Selling expense	22,067,586	16,573,726
General and administrative expense	10,048,354	7,527,123
Total	**84,536,078**	**70,766,810**

Cost and revenues items in terms of type are shown below.

2.4.2.1 Net sales 97,977,511 thousand SIT

in thousand SIT

	2004	2003
Revenues from sales of products and services in Slovenia	**17,825,424**	**16,833,939**
– to Group companies	16,344	2,997
– to others	17,809,080	16,830,942
Revenues from sales of products and services abroad	**76,698,886**	**64,251,135**
– to Group companies	17,102,250	16,847,771
– to others	59,596,636	47,403,364
Revenues from sales of goods and materials in Slovenia to others	**649,545**	**995,864**
Revenues from sales of goods and materials abroad	**2,803,656**	**3,306,939**
– to Group companies	867,598	1,537,645
– to others	1,936,058	1,769,294
Total	**97,977,511**	**85,387,877**

- **Net sales by business segments**

in thousand SIT

	2004	2003
Human health products	91,210,515	77,321,562
– prescription pharmaceuticals	79,847,605	67,019,337
– self-medication products	11,362,910	10,302,225
Animal health products	3,884,460	3,889,515
Cosmetic products	2,735,838	3,890,374
Other	146,698	286,426
Total	**97,977,511**	**85,387,877**

- **Net sales by geographical segments**

in thousand SIT

	2004	2003
Slovenia	18,474,969	17,829,803
South-East Europe	16,797,813	16,194,125
East Europe	22,134,771	19,671,422
Central Europe	19,380,057	18,109,147
West Europe and Overseas Markets	21,189,901	13,583,380
Total	**97,977,511**	**85,387,877**

Since 2004, the sales to Lithuania, Latvia and Estonia are stated within the Central European region and no longer under East Europe. Hence, the data for 2003 have been adjusted appropriately. In 2003, the sales of products to these countries amounted to 2,352,452 thousand SIT.

2.4.2.2 Other operating revenues 4,098,175 thousand SIT

in thousand SIT

	2004	2003
Utilisation and reversal of long-term provisions (Note 2.4.1.9)	3,788,275	76,968
Other income-related revenues	124,075	17,043
Operating revenues from revaluation	185,825	209,527
Total	**4,098,175**	**303,538**

The result includes the reversal of provisions related to the enalapril lawsuit that was concluded in 2004 in favour of Krka. Additional provisions were formed for other outstanding lawsuits.

2.4.2.3 Cost of goods, materials and services 43,518,841 thousand SIT

in thousand SIT

	2004	2003
Cost of goods and materials sold and cost of materials used	27,372,515	28,046,251
Cost of services	16,146,326	14,157,456
Total	**43,518,841**	**42,203,707**

Compared to the previous year, the cost of goods and materials sold and cost of materials used increased by 3%.

- **Cost of goods and materials sold and cost of materials used**

in thousand SIT

	2004	2003
Cost of basic materials and cost of goods sold	23,556,602	24,589,177
Cost of energy supply	1,825,206	1,595,515
Other cost of materials	1,990,707	1,861,559
Total	**27,372,515**	**28,046,251**

Other cost of materials comprise cost of spare parts and materials for maintenance of fixed assets, cost of office stationary and trade magazines, write-off of low value items and other cost of materials.

- **Cost of services**

in thousand SIT

	2004	2003
Costs of fairs, advertising and promotion	5,546,732	5,688,111
Costs of professional services	3,332,996	2,597,730
Cost of maintenance	1,531,072	1,151,516
Cost of transport services	1,252,784	1,157,347
Refund of work-related expenses	893,422	811,437
Cost of services performed by natural persons that do not perform a registered business activity, including the associated cost	940,883	683,500
Other cost of services	2,648,437	2,067,815
Total	**16,146,326**	**14,157,456**

Other cost of services includes cost of funds transfer services and banking services as well as insurance premiums in the amount of 678,890 thousand SIT, cost of rentals in the amount of 526,616 thousand SIT, dealer's commissions in the amount of 861,535 thousand SIT, and costs of other services in the amount of 581,396 thousand SIT.

2.4.2.4 Labour cost — 26,359,527 thousand SIT

in thousand SIT

	2004	2003
Gross salaries, wages, and continued pay	19,031,365	17,005,353
Social security contributions and payroll tax	4,911,068	4,319,381
Other labour cost	2,417,094	1,577,475
Total	**26,359,527**	**22,902,209**

Other labour cost in 2004 include vacation bonus, travel allowance, termination pay, tenure awards, and some other repayments to employees.
The contribution for compulsory pension and disability insurance amounted to 4,948,959 thousand SIT in 2004 (both, employer's and employee's contributions are included), and 676,960 thousand SIT for additional pension insurance.

2.4.2.5 Amortisation/depreciation expense — 9,750,662 thousand SIT

Amortisation/depreciation expense includes 8,604,262 thousand SIT of amortisation/depreciation expense and operating expenses from revaluation of tangible fixed assets and 1,146,400 thousand SIT of operating expenses from revaluation of operating current assets.

- **Amortisation/depreciation expense, and operating expenses from revaluation**

in thousand SIT

	2004	2003
Amortisation of intangible fixed assets	524,717	334,504
Depreciation of tangible fixed assets	7,725,946	7,432,747
Operating expenses from revaluation of tangible fixed assets	353,599	54,492
Total	**8,604,262**	**7,821,743**

- **Operating expenses from revaluation of operating current assets**

Allowances for inventories of materials, goods, products and work-in-progress are formed for the inventories ranked as questionable items, non-moving, expired sell-by date or perishable goods. Operating expenses from revaluation of operating current assets include allowances for inventories in the amount of 890,408 thousand SIT and allowances for receivables in the amount of 255,992 thousand SIT.

2.4.2.6 Other operating expenses 3,832,049 thousand SIT

in thousand SIT

	2004	2003
Environmental levies	260,494	307,185
Donations, aids, co-financing	464,132	444,427
Scholarships and rewards to pupils and students	28,500	33,000
Fiscal charges irrespective of operating results	311,802	316,140
Formation of provisions	2,471,633	0
Other costs	295,488	202,430
Total	**3,832,049**	**1,303,182**

2.4.2.7 Financial revenues 3,549,249 thousand SIT

in thousand SIT

	2004	2003
Financial revenues from shares	**1,545,028**	**616,050**
– financial revenues from shares in Group companies (mostly profits of Group companies)	1,521,560	573,395
– financial revenues from shares in associates	11,128	0
– other financial revenues from shares	12,340	42,655
Financial revenues from long-term receivables	**404,541**	**1,952,736**
– financial revenues from long-term receivables due from Group companies (interest revenues from long-term loans)	74,384	104,394
– financial revenues from long-term receivables due from associates	6,685	0
– other financial revenues from long-term receivables	323,472	1,848,342
Financial revenues from short-term receivables	**1,599,680**	**1,301,347**
– financial revenues from short-term receivables due from Group companies	505,860	587,391
– other financial revenues from short-term receivables	1,093,820	713,955
Total	**3,549,249**	**3,870,133**

Other financial revenues from long-term receivables in 2004 include exchange gains from payments and from revaluation of long-term granted and raised loans in the amount of 295,983 thousand SIT as well as revenues from the interest on granted long-term loans in the amount of 27,489 thousand SIT.

Financial revenues from short-term receivables due from Group companies include 483,202 thousand SIT of exchange differences arising from import and export.

Other significant items within other financial revenues from short-term receivables include exchange gains in the amount of 723,672 thousand SIT and profits from options dealings in the amount of 241,322 thousand SIT.

2.4.2.8 Financial expenses 4,169,900 thousand SIT

in thousand SIT

	2004	2003
Financial expenses for long- and short-term investment write-offs	**1,816,727**	**1,896,149**
– financial expenses for revaluation of investments in Group companies	1,394,176	1,696,123
– other financial expenses for revaluation	422,551	200,026
Interest expenses and financial expenses for other liabilities	**2,353,173**	**4,149,384**
– interest expenses and financial expenses for other liabilities to Group companies	288,729	1,228,830
– other interest expenses and financial expenses for other liabilities	2,064,444	2,920,554
Total	**4,169,900**	**6,045,533**

Financial expenses for revaluation of investments in Group companies include current losses of these companies in the amount of 740,303 thousand SIT, covering of loss from previous years generated by Krka-Rus, Istra in the amount of 364,979 thousand SIT, exchange losses from revaluation of investments in accordance with the changes in exchange rates of foreign currencies in which the individual investments are denominated, in the amount of 248.294 thousand SIT, as well as exchange losses arising from revaluation of a long-term loan granted to Krka-Rus, Istra in the amount of 40,599 thousand SIT.

Interest expenses and financial expenses for other liabilities to Group companies comprise exchange gains and losses arising from export payments and revaluation of export receivables due from Group companies in the amount of 288,729 thousand SIT.

Other interest expenses and financial expenses for other liabilities include mostly negative exchange differences in the total amount of 1,244,390 thousand SIT, incurred in connection with receivables and liabilities, both upon payments and upon revaluation as at the balance sheet date, mainly related to the drop of dollar exchange rate, and interest expenses from short- and long-term loans in the amount of 795,693 thousand SIT. The rest mainly relates to brokerage commissions.

2.4.2.9 Income tax 2,963,774 thousand SIT

Income is taxed at 25%. The tax base was determined by taking into account tax additions and tax deductions. Income tax amounts to 17.4% of total profit (14.2% in 2003). Despite the increase against 2003, income tax has remained relatively low, mostly due to tax relief for investments in tangible and intangible fixed assets.

2.4.2.10 Net profit for the financial year 14,101,384 thousand SIT

in thousand SIT

	2004	2003
Profit or loss from ordinary activities	16,963,906	12,753,044
Profit or loss from extraordinary activities	101,252	98,320
Net profit or loss for the financial year	14,101,384	11,022,412

The operating profit generated by the Company in 2004 amounted to 17,584,557 thousand SIT, which represents a 17.8% increase compared to 2003.

Net profit for 2004 amounted to 14,101,384 thousand SIT and showed an increase of 27.9% over the previous year's figure. Apart from the increase in operating revenues, the ratio between financial revenues and financial expenses had a major impact upon the net profit for the financial year: compared to the previous year, the aforesaid ratio is more favourable by 1,554,749 thousand SIT

If capital had been revalued by the growth rate of the euro exchange rate (1.289%), profit or loss for the period would have been lower by 1,234,913 thousand SIT in 2004. If capital had been revalued by the cost of living index (103.2%), profit or loss for the period would have been lower by 3,074,070 thousand SIT.

2.5 General information and other disclosures

Company profile

Krka, d. d., Novo mesto
Šmarješka cesta 6
8501 Novo mesto
Slovenia

Objects of the Company

Business operations of the Company are mainly centred upon pharmaceutical and chemical activities, which, in addition to the production and sale of prescription pharmaceuticals and self-medication products, also include the production and sale of animal health products and cosmetic products. The registered activities of the Company are listed in the Articles of Association.

Data on the controlling company

Krka, tovarna zdravil, d. d., Novo mesto, Šmarješka cesta 6, 8501 Novo mesto is the controlling company within the Krka Group. The Annual Report of Krka, d. d., Novo mesto and the Consolidated Annual Report of the Krka Group are available for review at the Company's registered seat and on the web-site www.krka.si.

Employees

As at the balance sheet date, the Company employed 3648 staff; 2932 of those in Slovenia and 716 in representative offices abroad.

Average number and breakdown of employees by educational levels in 2004 compared to 2003

	Krka, d. d., Novo mesto			
	2004		2003	
Educational level	Headcount	Share (in %)	Headcount	Share (in %)
PhD	42	1.2	38	1.1
MSc	113	3.1	106	3.1
University education	1113	30.9	948	27.4
Higher professional education	106	3.0	88	2.5
Vocational college education	149	4.1	157	4.5
Secondary school education	816	22.6	818	23.6
Skilled workers	1058	29.3	1086	31.4
Unskilled workers	208	5.8	222	6.4
Total (average for the period)	**3605**	**100.0**	**3463**	**100.0**

Total amount of receipts that groups of persons received in the financial year for performing their functions or duties in conformity with Article 253 of the Companies Act

in thousand SIT

GROUPS OF PERSONS AS PER COMPANIES ACT	Total receipts	Hereof participation in profit according to the annual meeting resolution
Members of the Management Board	549,057	0
Members of the Supervisory Board	58,824	47,631
Persons employed under individual employment contracts	3,148,808	0
Total	**3,756,689**	**47,631**

in thousand SIT

MEMBERS OF THE MANAGEMENT BOARD	Gross salary – fixed part	Gross salary – variable part	Fringe benefits and other receipts	Refund of expenses	Total receipts
Miloš Kovačič	57,004	84,685	44,218	2,948	188,855
Jože Colarič	41,574	61,635	8,476	2,712	114,397
Janez Poljanec	43,002	63,704	7,418	1,961	116,085
Aleš Rotar	40,524	60,017	3,914	1,615	106,070
Danica Novak Malnar	22,119	0	1,272	259	23,650
Total	**204,223**	**270,041**	**65,298**	**9,495**	**549,057**

The receipts of the Management Board members include salaries and wages, fringe benefits, holiday allowance, any other receipts, and refund of expenses. A new policy related to bonuses granted to the management has been in force since 2003. Contrary to the previous years, the management did not participate in profit, in accordance with the resolution adopted by the annual meeting. Hence the item “Gross salary – variable part” includes bonuses for both 2003 and 2004, in accordance with the Rules on Bonuses Granted to the Management Board, adopted by the Supervisory Board. The receipts of the Supervisory Board members include remuneration for the tasks performed within the Supervisory Board. Receipts of persons employed under individual employment contracts include salaries and wages, fringe benefits, holiday allowance, any other receipts (tenure awards, etc.), and refund of expenses.

Data on loans granted by the Company to groups of persons in conformity with Article 253 of the Companies Act

in thousand SIT

GROUPS OF PERSONS AS PER THE COMPANIES ACT	Loan balance as at 31 Dec 2004	Repayments in 2004
Members of the Management Board	2,971	717
Members of the Supervisory Board	2,554	594
Persons employed under individual employment contracts	96,287	16,600
Total	**101,812**	**17,911**

2.6 Ratios

	2004	2003
1. Equity financing rate: equity / liabilities (in broader sense)	0.706	0.669
2. Long-term financing rate: equity + provisions + long-term liabilities / liabilities (in broader sense)	0.877	0.792
3. Operating fixed assets rate: fixed assets (at carrying amount) / assets	0.447	0.411
4. Long-term investment rate: fixed assets (at carrying amount) + long-term investments + long-term operating receivables / assets	0.658	0.622
5. Equity to operating fixed assets: equity / fixed operating assets (at carrying amount)	1.578	1.627
6. Acid test ratio: short-term investments + cash / short-term liabilities	0.176	0.081
7. Quick ratio: short-term investments + cash + short-term receivables / short-term liabilities	1.666	1.094
8. Current ratio: inventories + short-term investments + cash + short-term receivables / short-term liabilities	2.745	1.831
9. Operating efficiency ratio: operating revenues / operating expenses	1.208	1.211
10. Net return on equity ratio: net profit for the financial year / average equity (less net operating result for the reporting year)	0.149	0.126
11. Dividends to share capital ratio: total dividends paid in the financial year / average share capital	0.290	0.250

2.7 Appendix

2.7.1 Balance sheet as at 31 December 2004 – expanded version pursuant to SAS

in thousand SIT

	31 Dec 2004	31 Dec 2003
ASSETS	**151,080,787**	**144,307,300**
A. Fixed assets	**103,768,324**	**91,977,531**
I. Intangible fixed assets	4,337,508	2,198,129
1. Deferred operating cost	513,329	600,150
3. Concessions, patents, licences, trademarks, and similar rights and assets	3,824,179	1,597,979
II. Tangible fixed assets	67,607,520	59,322,654
1. Land and buildings	37,938,149	36,522,486
a) Land	2,775,096	2,745,570
b) Buildings	35,163,053	33,776,916
2. Manufacturing plant and equipment	21,308,738	15,384,441
3. Other plant and equipment	441,507	365,107
4. Tangible fixed assets being acquired	7,919,126	7,050,620
a) Advances for tangible fixed assets	1,356,002	371,967
b) Tangible fixed assets in course of construction	6,563,124	6,678,653
III. Long-term investments	31,823,296	30,456,748
1. Interests in Group companies	25,332,414	23,435,550
2. Long-term receivables from investments in Group companies, excluding associates	440,607	742,942
3. Interests in associates	0	120,256
5. Other long-term shares	481,203	628,271
6. Other long-term receivables from investments	898,792	859,449
7. Own shares	4,670,280	4,670,280
B. Current assets	**47,176,096**	**52,270,570**
I. Inventories	18,538,074	21,038,789
1. Material	5,746,953	6,191,291
2. Work in progress	3,937,437	4,214,701
3. Products and merchandise	8,853,684	10,632,737
4. Advances for inventories	0	60
II. Operating receivables	25,617,311	28,931,309
a) Long-term operating receivables	6,829	6,012
2. Long-term receivables due from Group companies, excluding associates	6,089	6,012
4. Long-term operating receivables due from other entities	740	0
b) Short-term operating receivables	25,610,482	28,925,297
1. Short-term trade receivables	11,001,850	12,338,162
2. Short-term receivables due from Group companies, excluding associates	13,571,146	14,929,068
4. Short-term receivables due from other entities	1,037,486	1,658,067
III. Short-term investments	1,919,757	1,472,022
1. Short-term interests in Group companies, excluding associates	535,486	540,664
4. Short-term investments in other entities	1,384,271	931,358
IV. Cash in bank, cheques and cash in hand	1,100,954	828,450
C. Deferred costs (expenses) and accrued revenues	**136,367**	**59,199**
OFF BALANCE SHEET ASSETS	18,599,067	17,864,111

in thousand SIT

	31 Dec 2004	31 Dec 2003
LIABILITIES	**151,080,787**	**144,307,300**
A. Capital	**106,711,173**	**96,504,036**
I. Called-up capital	14,170,448	14,170,448
1. Share capital	14,170,448	14,170,448
II. Capital reserves	2,598,736	2,598,736
III. Revenue reserves	55,230,357	47,820,807
1. Legal reserves	3,592,196	3,592,196
2. Reserves for own shares	4,670,280	4,670,280
3. Statutory reserves	1,500,000	1,000,000
4. Other revenue reserves	45,467,881	38,558,331
IV. Net profit or loss from previous periods	3,583,658	5,014,357
V. Net profit or loss for the financial year	9,101,384	5,011,206
VI. Capital revaluation adjustments	22,026,590	21,888,482
1. General capital revaluation adjustment	21,724,113	21,724,113
2. Specific capital revaluation adjustment	302,477	164,369
B. Provisions	**12,025,182**	**13,344,329**
3. Other provisions	12,025,182	13,344,329
C. Financial and operating liabilities	**30,972,198**	**33,052,605**
a) Long-term financial and operating liabilities	13,786,543	4,509,154
2. Long-term financial liabilities to banks	13,699,841	4,387,118
8. Long-term financial and operating liabilities to other entities	86,702	122,036
b) Short-term financial and operating liabilities	17,185,655	28,543,451
2. Short-term financial liabilities to banks	1,601,791	12,570,386
3. Short-term operating liabilities from advances	503,246	217,647
4. Short-term trade payables	6,075,658	5,676,635
6. Short-term financial and operating liabilities to Group companies, excluding associates	1,710,155	3,930,618
8. Short-term financial and operating liabilities to other entities	7,294,805	6,148,165
D. Accrued costs (expenses) and deferred revenues	**1,372,234**	**1,406,330**
OFF BALANCE SHEET LIABILITIES	18,599,067	17,864,111

2.7.2 Income statement – expanded version pursuant to SAS

in thousand SIT

	2004	2003
1. Net sales	97,977,511	85,387,877
a) On domestic market	18,474,969	17,829,803
b) On foreign market	79,502,542	67,558,074
2. Change in inventories of finished goods and work in progress	-1,074,999	4,330,415
3. Capitalised own products and services	44,949	3,839
4. Other operating revenues	4,098,175	303,538
5. Cost of goods, materials and services	-43,518,841	-42,203,707
a) Cost of goods and materials sold and cost of materials used	-27,372,515	-28,046,251
b) Cost of services	-16,146,326	-14,157,456
6. Labour cost	-26,359,527	-22,902,209
a) Cost of wages and salaries	-19,031,365	-17,005,353
b) Social security cost	-4,911,068	-4,319,381
c) Other labour cost	-2,417,094	-1,577,475
7. Amortisation/depreciation expense	-9,750,662	-8,688,127
a) Amortisation/depreciation expense, and operating expenses from revaluation of intangible and tangible fixed assets	-8,604,262	-7,821,743
b) Operating expenses from revaluation of current assets	-1,146,400	-866,384
8. Other operating expenses	-3,832,049	-1,303,182
9. Financial revenues from shares	1,545,028	616,050
a) Financial revenues from interests in Group companies, excluding associates	1,521,560	573,395
b) Financial revenues from interests in associates	11,128	0
c) Other financial revenues from shares	12,340	42,655
10. Financial revenues from long-term receivables	404,541	1,952,736
a) Financial revenues from long-term receivables due from Group companies, excluding associates	74,384	104,394
b) Financial revenues from long-term receivables due from associates	6,685	0
c) Other financial revenues from long-term receivables	323,472	1,848,342
11. Financial revenues from short-term receivables	1,599,680	1,301,347
a) Interest revenues and financial revenues from short-term receivables - revaluation	505,860	0
c) Other interest revenues and financial revenues from short-term receivables	1,093,820	1,301,347
12. Financial expenses for long-term and short-term investment write-offs	-1,816,727	-1,896,149
a) Financial expenses for revaluation of investments in Group companies, excluding associates	-1,394,176	-1,696,123
c) Other financial expenses for revaluation	-422,551	-200,026
13. Interest expenses and financial expenses for other liabilities	-2,353,173	-4,149,384
a) Interest expenses and financial expenses for other liabilities to Group companies, excluding associates	-288,729	-1,228,830
c) Other interest expenses and financial expenses for other liabilities	-2,064,444	-2,920,554
15. Profit or loss from ordinary activities	16,963,906	12,753,044
16. Extraordinary revenues	112,051	112,715
17. Extraordinary expenses	-10,799	-14,395
a) Extraordinary expenses less expenses for capital revaluation adjustment	-10,799	-14,395
18. Profit or loss from extraordinary activities	101,252	98,320
19. Profit or loss before tax	17,065,158	12,851,364
20. Income tax	-2,963,774	-1,828,952
21. Net profit or loss for the financial year	14,101,384	11,022,412

3 FINANCIAL STATEMENTS OF THE KRKA GROUP

3.1 Company profile

The Krka Group consists of the controlling company Krka, d. d., Novo mesto (hereinafter called "Krka" or "the Company"), thirteen subsidiaries in Slovenia and abroad and one associated company.

In 2004, the Group generated sales revenues in the amount of 113,317,141 thousand SIT, of which 22% of revenues were realised on the domestic market and 78% in the foreign market. Most of the Group companies abroad represent a part of the distribution network, through which Krka sells its products. The sale of Krka's products is recorded at 107,351,146 thousand SIT or 95%, whereas the sale of health-resort and tourist services of Krka Zdravilišča (together with the Krka Strunjan) is recorded at 5,965,995 thousand SIT or 5% of sales revenues of the Krka Group.

	2004	Growth 2004/2003 (in %)
Sales revenues in thousand SIT	113,317,141	17
Net profit for the financial year	14,660,355	39
Asset value in thousand SIT as at 31 December	154,213,994	5
Number of employees as at 31 December	4781	6

Krka is the parent company of the Krka Group, which encompasses following subsidiaries:

	Ownership share as at 31 Dec 2004 (in %)	Share capital (in thousand SIT)	Currency
Subsidiaries			
KRKA ZDRAVILIŠČA, d. o. o., Novo mesto	100	3,535,466	TSIT
KRKA-FARMA d. o. o., Zagreb, Croatia	100	76,369,900	HRK
KRKA-FARMA DOOEL, Skopje, Macedonia	100	49,060,618	MKD
KRKA-POLSKA, Sp. z o. o., Warsaw, Poland	100	17,490,000	PLZ
KRKA Aussenhandels GmbH, Munich, Germany	100	255,646	EUR
OOO "KRKA-RUS", Istra, Russian Federation	100	1,111,374,765	RUB
OOO "KRKA FARMA", Sergiev posad, Russian Federation	100	130,000	RUB
KRKA ČR, s. r. o., Prague, Czech Republic	100	100,000	CZK
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	100	1,000	EUR
KRKA Sverige AB, Stockholm, Sweden	100	150,000	SEK
KRKA Magyarország Kft, Budapest, Hungary	99	12,600,000	HUF
HELVETIUS-S.R.L., Trieste, Italy	80	51,600	EUR
"KRKA-FARMA" D. O. O. NOVI SAD Serbia and Montenegro	60	119,745	CSD

Dawa in Kenya is the Group's associated company, where Krka holds a 34.78% share.

The associated company Krka Kozmetika DOOEL, Skopje, has been sold and since 1 January 2004 no longer part of the Krka Group.

The consolidated (Group) Annual Report 2004 is available for review at the registered office of the controlling company and the web site www.krka.si.

Bodies of the Group companies

As at 1 January 2005 the Management Board of Krka consists of: Jože Colarič, President of the Management Board and Chief Executive, Janez Poljanec, Member of the Management Board and Director of Product Supply, Aleš Rotar, Member of the Management Board and Director of Research and Development, and Danica Novak Malnar, Worker Director. As at 1 April 2005, the Management Board was joined by another member, namely Zvezdana Bajc who acts also as Director of Economics and Information Processing. Up to 31 December 2004, Miloš Kovačič was President of the Management Board and Chief Executive, whereas Jože Colarič was acting as Deputy to the President of the Management Board and Chief Executive, as well as Director of Marketing and Sales.

The Supervisory Board of Krka consists of shareholder's representatives: Janez Prijatelj, President; Bojan Dejak, Borut Jamnik, Janko Kastelic, Mojca Osolnik Videmšek and Stanislav Valant; and employee's representatives: Sonja Kermc, Mihaela Korent, Miroslav Kramarič, Darinka Kure, Boris Petančič and Božena Šuštar.

In 2004, subsidiaries were managed by following directors:

GROUP COMPANIES	Directors
KRKA ZDRAVILIŠČA, d. o. o., Novo mesto	Vladimir Petrovič
KRKA-FARMA d. o. o., Zagreb, Croatia	Mladen Pavletić
KRKA-FARMA DOOEL, Skopje, Macedonia	Svetlana Stanoevska
KRKA-POLSKA, Sp. z o. o., Warsaw, Poland	Jožef Kolarič
KRKA Aussenhandels GmbH, Munich, Germany	Irena Bostič
OOO "KRKA-RUS", Istra, Russian Federation	Boris Veselič
OOO "KRKA FARMA", Sergiev posad, Russian Federation	Aleš Cuderman
KRKA ČR, s. r. o., Prague, Czech Republic	Andrej Dobovišek
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	Viktor Kozjan
KRKA Magyarország Kft, Budapest, Hungary	Katalin Hubay
HELVETIUS-S.R.L., Trieste, Italy	Tanja Šega
"KRKA-FARMA" D. O. O. NOVI SAD, Serbia and Montenegro	Adam Frenc
KRKA Sverige AB, Stockholm, Sweden	Jan-Christer Tjernström

Number of employees in Group companies

Number of employees as at 31 December 2004:

GROUP COMPANIES	2004	2003
KRKA, d. d., Novo mesto	3648	3528
KRKA ZDRAVILIŠČA, d. o. o., Novo mesto*	594	552
KRKA-FARMA d. o. o., Zagreb, Croatia	89	86
KRKA-FARMA DOOEL, Skopje, Macedonia	23	23
KRKA KOZMETIKA DOOEL, Skopje, Macedonia	0	2
KRKA-POLSKA, Sp. z o. o., Warsaw, Poland	347	263
KRKA Aussenhandels GmbH, Munich, Germany	1	2
OOO "KRKA-RUS", Istra, Russian Federation	50	38
OOO "KRKA FARMA", Sergiev posad, Russian Federation	16	13
KRKA PHARMA DUBLIN LIMITED, Dublin, Ireland	1	4
HELVETIUS-S.R.L., Trieste, Italy	5	5
"KRKA-FARMA" D. O. O., NOVI SAD Serbia and Montenegro	7	6
Total	**4781**	**4522**

* Including Zdravilišče Strunjan.

3.2 Principles for the preparation of financial statements

Consolidated financial statements for 2004 are prepared in accordance with the fundamental accounting assumptions and the Slovenian Accounting Standards, except for the valuation of those items, where standards permit a company to choose from different valuation methods.

The basis for the preparation of the Group's financial statements, including the fundamental accounting assumptions, foreign exchange rate and the method of translation into the local currency, and segment reporting, is defined in the chapter Summary of the significant accounting policies for Krka, d. d., Novo mesto.

Accounting policies of the Krka Group

As regards the valuation of items in the financial statements, the Group companies apply uniform policies, which are presented within the framework of the accounting policies of Krka, d. d., Novo mesto. An exception is the statement of accounts for depreciation in Krka Zdravilišča, where the specific nature of business activity dictates the use of different depreciation rates that are mostly from those applied in other Group companies. In addition, the company Krka-Polska applies different criteria for the formation of allowances for receivables than the parent company. The difference results in the actual assessment of the Polish market risk-level and individual clients from this market.

Translation of financial statements of Group companies

Balance sheets of subsidiaries are translated into SIT at the effective middle exchange rate of Bank of Slovenia valid as at 31 December 2004, whereas for the income statements the average foreign exchange rate of 2004 is applied.

Exchange differences resulting from the translation of financial statements by applying different exchange rates, are disclosed within the consolidated capital adjustment.

▶ Principles applied to consolidation and eliminations

Capital consolidation

Investments made by the parent company Krka, d. d., Novo mesto to subsidiaries are valued according to the equity method and accounted with the proportionate capital of these companies, which belongs to the Krka Group. The investment of Helvetius into Krka-Farma, Novi Sad and Krka Magyarország Kft is valued according to the equity method and accounted for using the proportionate capital of this company while the difference between the investment and the capital is accounted for within capital items.

Minority owners' shares in the capital subsidiaries are stated separately within capital items. Minority owners' share in the profit of the financial year is stated separately as well.

Elimination of receivables and liabilities

During the consolidation procedures all intragroup receivables and liabilities relating to the companies in the Krka Group, which should be reciprocally brought into line, are eliminated. The main source of differences between receivables and liabilities are exchange-rate differences (between the local and the transaction currency).

The variance resulting from the difference between the consolidation of receivables and liabilities at the beginning and end of a period is accounted for via the consolidated income statement. The negative impact amounts to 195,090 thousand SIT.

Elimination of interim net profits

Profit generated from intragroup sales of those products that have not yet been sold to third parties as at 31 December 2004, is eliminated from the consolidated financial statements.

- **Inventories**

Profit generated from intragroup sales of those materials and products that had been sold within the Krka Group and are still in stock in individual companies at year-end, is eliminated from the consolidated financial statements. The variance resulting from the interim profits in inventories at the beginning and end of the period is accounted for through the consolidated income statement.

Upon the elimination of interim profits, a part of the merchandise that is provided to the foreign commercial companies by the parent company is reclassified to the balance sheet item of finished products. Thus the item of merchandise includes solely inventories purchased from third parties or companies other than those of the Krka Group.

At the beginning of the year, unrealised profits in inventories of products were recorded at 2,079,402 thousand SIT, whereas at the end of the year at 1,186,418 thousand SIT. Unrealised profits in inventories of reproduction material amounted to 86,613 thousand SIT at the beginning of the year, whereas at the end of the year the inventories were fully consumed.

The consolidated income statement for 2004 was influenced merely by the variance between the interim profit in inventories of products and inventories of reproduction material at the beginning and end of the year. The said variance is recorded at 979,597 thousand SIT.

The opening balance of unrealised profits exceeded the closing balance of unrealised profits, thus the variance represents a positive impact on the income statement.

- **Fixed assets**

Profit generated from intragroup sales of fixed assets is eliminated from the consolidated financial statements. The total profit generated from intragroup sales of fixed assets is eliminated in the year of sale, whereas in the following years the depreciation cost that is accounted for by the customer using a higher value than admissible with reference to the group, is adjusted. One of the reasons for unrealised profits as regards tangible fixed assets lies also in the capitalisation of interest on buildings in the subsidiary Krka-Rus, Istra. The total impact related to fixed assets positively affected the net operating result that amounted to 47,463 thousand SIT.

Other impacts on the result

The original financial statements of subsidiaries were prepared in accordance with the regional legislation. Due to their adjustment to uniform accounting policies of the Krka Group, the year 2004 recorded negative impacts on the Group's result in the amount of 327,350 thousand SIT. The negative impact results from adjusting the depreciation of fixed assets and from allowances for trade receivables. The increase of the consolidated profit was influenced by the profit generated from the sale of subsidiary Krka Kozmetika DOOEL, Skopje. The aforesaid profit amounted to 24,659 thousand SIT.

Elimination of revenues and expenses

Revenues and expenses resulting from transactions within the Krka Group are eliminated from the consolidated income statement as stated by individual companies. The consolidated financial statements for 2004 have been prepared in compliance with the fundamental accounting assumptions and the Slovenian Accounting Standards.

Corporate risk management

The Group or Group companies do not use additional methods of hedging against risks apart from those ways of managing corporate risk that are applied by the controlling company and described in the management report.

3.3 Auditor's Report

KPMG

Auditor's Report

To the Supervisory Board of KRKA, d. d., Novo mesto

We have audited the accompanying consolidated financial statements of the KRKA Group, Novo mesto, consisting of the consolidated balance sheet as of 31 December 2004, the consolidated income statement, the consolidated cash flow statement, the consolidated statement of changes in equity, and the notes to consolidated financial statements for the year then ended. We have read the management's report on operations of the Group. These consolidated financial statements and the notes to consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing issued by International Federation of Accountants and other auditing regulations issued by Slovenian Institute of Auditors. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. It also includes an assessment of the compliance of the management's report on operations with the financial statements, which form a constituent part of the annual report. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above give a true and fair view of the financial position of the Group as of 31 December 2004, the results of its operations, its cash flows and the changes in equity for the year then ended in conformity with Slovenian Accounting Standards issued by Slovenian Institute of Auditors.

The management's report on operations is in conformity with the audited consolidated financial statements.

KPMG SLOVENIJA,

podjetje za revidiranje, d.o.o.

Sanja Košir Nikašinović, BSc.Ec.
Partner and Certified Auditor

Marjan Mahnič, BSc.Ec.
Managing Partner and Certified Auditor

KPMG Slovenija, d.o.o.

Ljubljana, 21 March 2005

The Auditor's Report has been issued on the Financial Statements and the notes thereto in Slovene.

3.4 Financial statements of the Krka Group

Financial statements of the Krka Group for 2004 have been audited, except statements of the company in Hungary and the company in Czech Republic for both are inactive. Most of the Group companies were audited by local subsidiaries of the KPMG audit company. The audit company PricewaterhouseCoopers Sp. z o. o. has audited the financial statements of Krka Polska, auditor W. Jürgen von Freyburg from Munich audited the financial statements of Krka Aussenhandels GmbH, and Doggett & Co. audited the financial statements of Krka Pharma Dublin Limited.

3.4.1 Consolidated balance sheet

in thousand SIT

	Notes	31 Dec 2004	31 Dec 2003
ASSETS		**154,213,994**	**146,349,740**
FIXED ASSETS		**104,738,514**	**94,216,549**
Intangible fixed assets	3.6.1.1	4,674,953	2,575,488
Tangible fixed assets	3.6.1.2	93,800,670	85,268,878
Long-term investments	3.6.1.3	6,262,891	6,372,183
CURRENT ASSETS		**49,215,850**	**51,938,164**
Inventories	3.6.1.4	20,162,766	22,938,944
Operating receivables	3.6.1.5	24,398,187	25,973,585
Short-term investments	3.6.1.6	1,813,800	1,070,295
Cash in bank, cheques and cash in hand	3.6.1.7	2,841,097	1,955,340
DEFERRED COSTS (EXPENSES) AND ACCRUED REVENUES		**259,630**	**195,027**
OFF BALANCE SHEET ASSETS		19,289,689	18,453,499
LIABILITIES		**154,213,994**	**146,349,740**
CAPITAL	**3.6.1.8**	**106,415,600**	**95,622,288**
Called-up capital		14,170,448	14,170,448
Capital reserves		2,598,736	2,598,736
Revenue reserves		55,230,357	47,820,808
Net profit or loss from previous periods		684,324	2,615,050
Net profit or loss for the financial year		9,630,663	4,511,179
Capital revaluation adjustment		22,108,058	21,925,927
Minority owners' capital		1,993,014	1,980,140
PROVISIONS	**3.6.1.9**	**12,204,335**	**13,512,859**
FINANCIAL AND OPERATING LIABILITIES		**34,097,420**	**36,157,158**
Long-term financial and operating liabilities	3.6.1.10	14,596,143	5,821,295
Short-term financial and operating liabilities	3.6.1.11	19,501,277	30,335,863
ACCRUED COSTS (EXPENSES) AND DEFERRED REVENUES	**3.6.1.12**	**1,496,639**	**1,057,435**
OFF BALANCE SHEET LIABILITIES	3.6.1.13	19,289,689	18,453,499

For the expanded version of the consolidated balance sheet, refer to the Appendix 3.9.1.

3.4.2 Consolidated income statement

in thousand SIT

	Notes	2004	2003
Net sales	3.6.2.1	113,317,141	96,748,740
- on domestic market		24,453,665	23,172,705
- on foreign market		88,863,476	73,576,035
Change in inventories		-1,512,944	4,739,305
Capitalised own products and services		44,949	4,656
Other operating revenues	3.6.2.2	4,319,114	708,678
Costs of goods, materials and services	3.6.2.3	-50,219,204	-48,132,544
Labour cost	3.6.2.4	-31,455,468	-27,330,594
Amortisation/depreciation expense	3.6.2.5	-12,815,640	-10,664,822
- amortisation/depreciation expense, and operating expenses from revaluation of intangible and tangible fixed assets		-11,558,786	-9,578,332
- operating expenses from revaluation of current assets		-1,256,854	-1,086,490
Other operating expenses	3.6.2.6	-4,287,478	-1,633,510
Financial revenues from shares	3.6.2.7	623,315	57,204
Financial revenues from long-term receivables	3.6.2.7	353,692	1,905,103
Financial revenues from short-term receivables	3.6.2.7.	2,378,639	1,293,948
		-	
Financial expenses for long-term and short-term investment write-offs	3.6.2.8	-628,442	-188,376
Interest expenses and financial expenses for other liabilities	3.6.2.8	-2,695,308	-5,199,051
PROFIT OR LOSS FROM ORDINARY ACTIVITIES		**17,422,366**	**12,308,737**
Extraordinary revenues		141,755	135,627
Extraordinary expenses		-25,583	-45,055
PROFIT OR LOSS FROM EXTRAORDINARY ACTIVITIES		**116,172**	**90,572**
PROFIT OR LOSS BEFORE TAX		**17,538,538**	**12,399,309**
Income tax	3.6.2.9	-2,878,183	-1,836,463
NET PROFIT OR LOSS FOR THE FINANCIAL YEAR		**14,660,355**	**10,562,846**
Minority owners' share		-29,692	-40,461
MAJORITY OWNERS' NET PROFIT	**3.6.2.10**	**14,630,663**	**10,522,385**

For the expanded version of the consolidated income statement, refer to Appendix 3.9.2.

3.4.3 Consolidated cash flow statement

in thousand SIT

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Inflows	**115,345,173**	**95,226,316**
Operating revenues	114,397,898	98,020,860
Extraordinary revenues associated with operations	141,755	135,627
Opening less closing operating receivables	870,911	-2,902,842
Opening less closing deferred costs (expenses) and accrued revenues	-65,391	-27,329
Outflows	**84,693,935**	**79,930,196**
Operating expenses excluding amortisation (depreciation) and long-term provisions	84,562,729	76,093,226
Extraordinary expenses associated with operations	25,583	45,055
Income tax and other taxes not included in operating expenses	1,374,275	1,836,463
Closing less opening inventories	-1,843,735	5,175,716
Opening less closing operating liabilities	1,014,287	-2,671,562
Opening less closing accrued costs (expenses) and deferred revenues	-439,204	-548,702
Net cash from operating activities	**30,651,238**	**15,296,120**
CASH FLOWS FROM INVESTING ACTIVITIES		
Inflows	**514,005**	**1,080,334**
Financial revenues associated with investing activities (excluding revaluation)	250,688	502,067
Offset decrease in long-term investments (excluding revaluation)	263,317	0
Offset decrease in short-term investments (excluding revaluation)	0	578,267
Outflows	**23,595,523**	**20,342,437**
Offset increase in intangible fixed assets (excluding revaluation)	2,718,819	1,611,768
Offset increase in tangible fixed assets (excluding revaluation and contributions in kind)	20,226,069	18,695,734
Offset increase in long-term investments (excluding revaluation)	0	34,935
Offset increase in short-term investments (excluding revaluation)	650,635	0
Net cash used in investing activities	**-23,081,518**	**-19,262,103**
CASH FLOWS FROM FINANCING ACTIVITIES		
Inflows	**9,335,409**	**8,760,759**
Financial revenues associated with financing activities (excluding revaluation)	281,682	204,679
Offset increase in long-term provisions (excluding revaluation)	37,270	176,517
Offset increase in long-term financial liabilities (excluding revaluation)	9,016,457	1,877,361
Offset increase in short-term financial liabilities (excluding revaluation)	0	6,502,202
Outflows	**15,505,782**	**5,186,656**
Financial expenses associated with financing activities (excluding revaluation)	1,153,014	1,449,434
Offset decrease in short-term financial liabilities (excluding revaluation)	10,243,181	0
Dividends paid	4,109,587	3,737,222
Net cash used in financing activities	**-6,170,373**	**3,574,103**
CLOSING BALANCE OF CASH AND CASH EQUIVALENTS	**4,003,100**	**2,656,005**
Net flow for the financial year	1,399,347	-391,880
Effect of the exchange rate fluctuations on cash and cash equivalents	-52,252	87,420
Opening balance of cash and cash equivalents	2,656,005	2,960,465

3.4.4 Consolidated statement of changes in equity for 2004

in thousand SIT

	Called-up capital	Capital reserves	Legal reserves	Reserves for own shares	Statutory reserves	Other revenue reserves	Net profit or loss from previous periods	Net profit or loss for the financial year	General capital revaluation adjustment	Specific capital revaluation adjustment	Consolidated capital adjustment	Minority interests	Total capital
Balance as at 31 Dec 2003	**14,170,448**	**2,598,736**	**3,592,196**	**4,670,280**	**1,000,000**	**38,558,332**	**2,615,050**	**4,511,179**	**21,724,113**	**164,368**	**37,446**	**1,980,140**	**95,622,288**
Transfer to capital	**0**	**0**	**0**	**0**	**0**	**0**	**73,925**	**14,630,663**	**0**	**140,769**	**41,362**	**35,193**	**14,921,912**
Entry of the net profit or loss for the financial year	0	0	0	0	0	0	0	14,630,663	0	0	0	29,692	14,660,355
Entry of the amount of the specific capital revaluation adjustments	0	0	0	0	0	0	0	0	0	2,660	41,362	0	44,022
Other increases in capital components	0	0	0	0	0	0	73,925	0	0	138,109	0	5,501	217,535
Transfer within capital	**0**	**0**	**0**	**0**	**500,000**	**9,459,641**	**-448,462**	**-9,511,179**	**0**	**0**	**0**	**0**	**0**
Distribution of net profit for the financial year based on the decision of Management and Supervisory Boards	0	0	0	0	500,000	4,500,000	-500,027	-4,499,973	0	0	0	0	0
Allocation of net profit to additional reserves based on the decision of the annual meeting	0	0	0	0	0	4,959,641	-4,959,641	0	0	0	0	0	0
Other reclassifications of capital components	0	0	0	0	0	0	5,011,206	-5,011,206	0	0	0	0	0
Transfer from capital	**0**	**0**	**0**	**0**	**0**	**2,550,091**	**1,556,189**	**0**	**0**	**0**	**0**	**22,319**	**4,128,599**
Dividends paid	0	0	0	0	0	2,550,091	1,556,189	0	0	0	0	22,319	4,128,599
Decrease of translated currency differences	0	0	0	0	0	0	0	0	0	0	0	0	0
Other eliminated capital components	0	0	0	0	0	0	0	0	0	0	0	0	0
Balance as at 31 Dec 2004	**14,170,448**	**2,598,736**	**3,592,196**	**4,670,280**	**1,500,000**	**45,467,881**	**684,324**	**9,630,663**	**21,724,113**	**305,137**	**78,808**	**1,993,014**	**106,415,600**

3.4.5 Consolidated statement of changes in equity for the year 2003

in thousand SIT

	Called-up capital	Capital reserves	Legal reserves	Reserves for own shares	Statutory reserves	Other revenue reserves	Net profit or loss from previous periods	Net profit or loss for the financial year	General capital revaluation adjustment	Specific capital revaluation adjustment	Consolidated capital adjustment	Minority interests	Total capital
Balance as at 31 Dec 2002	**14,170,448**	**2,566,886**	**3,592,196**	**4,692,359**	**0**	**28,532,769**	**5,530,894**	**5,831,778**	**21,724,113**	**10,532**	**0**	**1,954,331**	**88,606,306**
Transfer to capital	**0**	**9,771**	**0**	**0**	**0**	**0**	**0**	**10,522,385**	**0**	**163,170**	**37,446**	**40,461**	**10,773,233**
Entry of the net profit or loss for the financial year	0	0	0	0	0	0	0	10,522,385	0	0	0	40,461	10,562,846
Entry of the amount of the specific capital revaluation adjustments	0	0	0	0	0	0	0	0	0	163,170	0	0	163,170
Other increases in capital components	0	9,771	0	0	0	0	0	0	0	0	37,446	0	47,217
Transfer within capital	**0**	**22,079**	**0**	**-22,079**	**1,000,000**	**10,025,563**	**817,421**	**-11,842,984**	**0**	**0**	**0**	**0**	**0**
Distribution of net profit for the financial year based on the decision of Management and Supervisory Boards	0	0	0	0	1,000,000	5,011,206	0	-6,011,206	0	0	0	0	0
Allocation of net profit to additional reserves based on the decision of the annual meeting	0	0	0	0	0	5,014,357	-4,389,206	-625,151	0	0	0	0	0
Other reclassifications of capital components	0	22,079	0	-22,079	0	0	5,206,627	-5,206,627	0	0	0	0	0
Transfer from capital	**0**	**0**	**0**	**0**	**0**	**0**	**3,733,265**	**0**	**0**	**9,334**	**0**	**14,652**	**3,757,251**
Dividends paid	0	0	0	0	0	0	3,548,140	0	0	0	0	17,641	3,565,781
Decrease of translated currency differences	0	0	0	0	0	0	0	0	0	0	0	-2,989	-2,989
Other eliminated capital components	0	0	0	0	0	0	185,125	0	0	9,334	0	0	194,459
Balance as at 31 Dec 2003	**14,170,448**	**2,598,736**	**3,592,196**	**4,670,280**	**1,000,000**	**38,558,332**	**2,615,050**	**4,511,179**	**21,724,113**	**164,368**	**37,446**	**1,980,140**	**95,622,288**

3.5 Accumulated profit

Accumulated profit is not identified at the level of Krka Group, hence only the accumulated profit of the controlling company is stated below. The said profit is allocated by the annual meeting of the controlling company.

in thousand SIT

	2004	2003
Compulsory appropriation of net profit		
Net profit for the financial year	**14,101,384**	**11,022,412**
– to cover loss from previous periods	0	0
– allocation to legal reserves	0	0
– allocation to reserves for own shares	0	0
– allocation to statutory reserves	500,000	1,000,000
Net profit after compulsory appropriation	**13,601,384**	**10,022,412**
– formation of other revenue reserves – decision adopted by the Management and Supervisory Boards	4,500,000	5,011,206
Surplus of net profit	**9,101,384**	**5,011,206**
Identification of accumulated profit		
Surplus of net profit	9,101,384	5,011,206
+ profit from previous periods	3,583,658	5,014,357
+ decrease in revenue reserves	3,874,858	4,000,000
Accumulated profit	**16,559,901**	**14,025,563**
Appropriation of accumulated profit		
– to dividends		4,055,940
– to other reserves		4,959,641
– to carry forward into the next period		4,959,641
– for other purposes (Supervisory Board's participation in profit)		50,340

3.6 Breakdowns and notes to the consolidated financial statements

3.6.1 Balance sheet

3.6.1.1 Intangible fixed assets 4,674,953 thousand SIT

in thousand SIT

	31 Dec 2004	31 Dec 2003
Deferred operating cost	729,393	861,337
Concessions, patents, licences, trademarks, brand names and other rights	3,945,560	1,714,151
Total	**4,674,953**	**2,575,488**

Of the Krka Group's intangible fixed assets, 93% are represented by Krka's assets, of which the majority refers to industrial property rights (concessions, patents, licences, etc.). Among intangible fixed assets acquired in 2004, the greatest part is represented by the parent's investment into a new information system amounting to 2,004,894 thousand SIT.

Movement of intangible fixed assets

in thousand SIT

	Deferred operating cost	Concessions, patents, licences, trademarks, brand names and other rights			Intangible fixed assets being acquired	Total
		Licences	Long-term operating lease	Investments in foreign fixed assets		
Cost						
Balance as at 31 Dec 2003	**1,255,038**	**1,312,052**	**99,004**	**324,886**	**736,044**	**3,727,024**
- additions, capitalisations	119,164	2,663,755	0	328,270	-377,499	2,733,690
- disposals, write-offs	-278	-24,940	0	-27,258	0	-52,476
- transfers	-41,234	67,099	0	-386	0	25,479
Balance as at 31 Dec 2004	**1,332,691**	**4,017,966**	**99,004**	**625,512**	**358,545**	**6,433,717**
Accumulated amortisation						
Balance as at 31 Dec 2003	**393,701**	**511,689**	**52,477**	**193,668**	**0**	**1,151,535**
- amortisation	218,601	322,160	5,941	72,653	0	619,355
- disposals, transfers	-9,004	14,998	0	-18,120	0	-12,126
Balance as at 31 Dec 2004	**603,298**	**848,847**	**58,418**	**248,201**	**0**	**1,758,764**
Carrying amount as at 31 Dec 2003	**861,337**	**800,363**	**46,527**	**131,218**	**736,044**	**2,575,488**
Carrying amount as at 31 Dec 2004	**729,393**	**3,169,119**	**40,586**	**377,311**	**358,545**	**4,674,953**

3.6.1.2 Tangible fixed assets 93,800,670 thousand SIT

in thousand SIT

	31 Dec 2004	31 Dec 2003
Land	5,064,126	4,820,029
Buildings	53,354,207	52,598,257
Equipment	25,852,795	20,494,789
- manufacturing plant and equipment	23,095,599	17,582,408
- other plant and equipment	2,757,196	2,912,381
Tangible fixed assets being acquired	9,529,542	7,355,803
- advances for fixed assets	1,384,168	226,870
Total	**93,800,670**	**85,268,878**

In 2004, Group's investments in tangible fixed assets amounted to 18,091,701 thousand SIT, of which 15,891,561 thousand SIT represents an investment in the controlling company and 2,201,140 thousand SIT an investment in subsidiaries in Slovenia and abroad. Major investments include: Notol, the plant for solid dosage pharmaceutical forms; construction of a new plant for the production of pharmaceutical active substances called Synthesis 4 and considered the biggest investment in Krka's history; investment in equipment required for the implementation of the SAP system or in other words modernising Krka's information system; and expansion of sites for pellet production in the plant Specifika. As regards the capitalised fixed assets, 27% percent refers to buildings and 72% to equipment.

Movement of tangible fixed assets

in thousand SIT

	Land	Buildings	Equipment	Tangible fixed assets being acquired	Advances	Total
Cost						
Balance as at 31 Dec 2003	**4,820,029**	**83,092,306**	**71,290,920**	**7,128,933**	**226,870**	**166,559,058**
Additions	0	0	0	18,091,701	1,102,652	19,194,353
Capitalisation	217,253	3,952,426	12,185,281	-16,803,097	0	-448,137
Inventory surplus	0	0	16,900	0	0	16,900
Disposals, deficits	-14,165	-321,733	-1,853,701	-272,163	54,646	-2,407,116
Transfers, reclassifications	41,009	-58,865	20,180	0	0	2,324
Balance as at 31 Dec 2004	**5,064,126**	**86,664,134**	**81,659,580**	**8,145,374**	**1,384,168**	**182,917,382**
Accumulated depreciation						
Balance as at 31 Dec 2003	**0**	**30,494,049**	**50,796,131**	**0**	**0**	**81,290,180**
Depreciation	0	3,834,889	6,614,652	0	0	10,449,542
Capitalisation	0	-700,859	-4,471	0	0	-705,330
Inventory surplus	0	0	14,482	0	0	14,482
Disposals, deficits	0	-318,152	-1,614,009	0	0	-1,932,161
Transfers, reclassifications	0	0	0	0	0	0
Balance as at 31 Dec 2004	**0**	**33,309,927**	**55,806,785**	**0**	**0**	**89,116,712**
Carrying amount as at 31 Dec 2003	**4,820,029**	**52,598,257**	**20,494,789**	**7,128,933**	**226,870**	**85,268,878**
Carrying amount as at 31 Dec 2004	**5,064,126**	**53,354,207**	**25,852,795**	**8,145,374**	**1,384,168**	**93,800,670**

3.6.1.3 Long-term investments 6,262,891 thousand SIT

in thousand SIT

	31 Dec 2004	31 Dec 2003
Interests in Group companies	0	0
Interests in associates	122,532	120,256
Other long-term shares	537,849	684,831
Other long-term receivables from investments	932,230	896,816
Own shares	4,670,280	4,670,280
Total	**6,262,891**	**6,372,183**

- **Movement of long-term investments**

in thousand SIT

	Interests in associates	Other long-term shares	Other long-term receivables from investments	Own shares	Total
Gross value					
Balance as at 31 Dec 2003	**120,256**	**692,169**	**902,392**	**4,670,280**	**6,385,097**
Increase	2,276	1,086	186,661	0	190,023
Decrease	0	151,468	153,393	0	304,861
Revaluation	0	3,656	13,454	0	17,110
Balance as at 31 Dec 2004	**122,532**	**545,443**	**949,114**	**4,670,280**	**6,287,369**
Value adjustment					
Balance as at 31 Dec 2003	**0**	**7,338**	**5,576**	**0**	**12,914**
Increase	0	256	14,569	0	14,825
Decrease	0	0	3,261	0	3,261
Balance as at 31 .12.2004	**0**	**7,594**	**16,884**	**0**	**24,478**
Carrying amount as at 31 Dec 2003	**120,256**	**684,831**	**896,816**	**4,670,280**	**6,372,183**
Carrying amount as at 31 Dec 2004	**122,532**	**537,849**	**932,230**	**4,670,280**	**6,262,891**

- **Other long-term receivables from investments 932,230 thousand SIT**

The major part of this item refers to housing loans that Krka extends to its employees. The said loans are stated in EUR and bear the interest rate of 3% p.a..

- **Own shares 4,670,280 thousand SIT**

As of the balance sheet date, own shares include 162,662 shares of Krka, d. d., Novo mesto in the total amount of 4,670,280 thousand SIT. Other notes related to own shares are included in the chapter on capital – reserves for own shares.

3.6.1.4 Inventories 20,162,766 thousand SIT

in thousand SIT

	31 Dec 2004	31 Dec 2003
Raw materials and other material	6,233,168	6,338,292
Work-in-progress	3,769,188	4,256,370
Products and merchandise	10,129,924	12,344,222
Advances for inventories	30,486	60
Total	**20,162,766**	**22,938,944**

In 2004, the value of inventories decreased by 12%, mainly due to the decrease of inventories in Krka that represents 92% of Group's inventories. The increase in inventories at the end of 2003 is a result of preparations for an intensive sale on the West-European markets in the first quarter of 2004. The sale of two new drugs for the treatment of cardiovascular diseases, namely amlodipine maleate and carvedilol tablets. Products and merchandise cover 50% of total inventories.

3.6.1.5 Operating receivables 24,398,187 thousand SIT

in thousand SIT

	31 Dec 2004	31 Dec 2003
Long-term operating receivables	747,046	324,287
– long-term operating receivables due from other entities	747,046	324,287
Short-term operating receivables	23,651,141	25,649,298
– short-term trade receivables	22,022,442	22,663,121
– short-term operating receivables due from Group companies excluding associates	366	0
– short-term operating receivables due from associates	5	30,625
– short-term operating receivables due from other entities	1,628,328	2,948,545
– short-term called capital – unpaid	0	7,007
Total	**24,398,187**	**25,973,585**

- **Short-term trade receivables**

	Gross value	Allowance	Net value as at 31 Dec 2004	Net value as at 31 Dec 2003
Short-term trade receivables				
– in Slovenia	3,738,885	-67,160	3,671,725	1,846,936
– abroad	19,609,786	-1,259,070	18,350,717	20,816,185
Total	**23,348,672**	**-1,326,230**	**22,022,442**	**22,663,121**

The controlling company forms allowances for receivables in conformity with criteria indicated in the chapter about accounting policies and are defined, according to the risk of individual markets and customers, as well as the actual repayability of receivables in the past.

Short-term trade receivables are not secured. According to the aging structure of receivables as at 31 December 2004, 88% of receivables are past due by six months, 6% of receivables are past due from six months to one year, and 6% of receivables are past due for over 1 year.

- **Short-term operating receivables due from other entities**

The major part (64%) of short-term operating receivables due from other entities refers to the parent's receivables arising from VAT refund in the amount of 1,037,487 thousand SIT.

3.6.1.6 Short-term investments 1,813,800 thousand SIT

Short-term investments include:

in thousand SIT

	Net value as at 31 Dec 2004	Net value as at 31 Dec 2003
Other shares, available-for-sale	769,490	273,878
Short-term loans granted	346,545	322,279
Other securities available-for-sale	696,378	471,331
Interest on short-term loans	1,387	2,807
Total	**1,813,800**	**1,070,295**

The item of short-term investments includes 1,384,271 thousand SIT of investments of the controlling company and 429,529 thousand SIT of investments of subsidiaries (mostly other securities available-for-sale).

With those short-term securities, where the Company established that their market value was lower from their purchase cost, an impairment of investments was carried out in the amount of 13,173 thousand SIT. No increase in value in order to reach the fair market value was carried out.

The latest in 2003 purchased foreign currency options, matured in June 2004. Up till the half-year, the controlling company recorded 228,275 thousand SIT of financial revenues from due premiums paid, and 241,322 thousand SIT of financial revenues from due options encashed. As of the balance sheet date, the value of options was recorded at 287,265 thousand SIT.

3.6.1.7 Cash in bank, cheques and cash in hand 2,841,097 thousand SIT

in thousand SIT

	31 Dec 2004	31 Dec 2003
Cash in hand and cheques received	14,824	15,213
Cash in bank	2,774,780	1,940,127
Other cash	51,493	0
Total	**2,841,097**	**1,955,340**

3.6.1.8 Capital 106,415,600 thousand SIT

in thousand SIT

	31 Dec 2004	31 Dec 2003
I. Called-up capital	14,170,448	14,170,448
1. Share capital	14,170,448	14,170,448
II. Capital reserves	2,598,736	2,598,736
III. Revenue reserves	55,230,357	47,820,808
1. Legal reserves	3,592,196	3,592,196
2. Reserves for own shares	4,670,280	4,670,280
3. Statutory reserves	1,500,000	1,000,000
4. Other revenue reserves	45,467,881	38,558,331
IV. Net profit or loss from previous periods	684,324	2,615,050
V. Net profit or loss for the financial year	9,630,663	4,511,179
VI. Capital revaluation adjustments	22,108,058	21,925,927
1. General capital revaluation adjustment	21,724,113	21,724,113
2. Specific capital revaluation adjustment	305,137	164,368
3. Consolidated capital adjustment	78,808	37,446
VII. Minority owners' capital	1,993,014	1,980,140
Total	**106,415,600**	**95,622,288**

In 2004, the value of capital increased by the profit belonging to the majority owner and amounting to 14,630,663 thousand SIT, by the net profit and adjustments to the minority owners' capital amounting to 35,193 thousand SIT, by the specific capital revaluation adjustment amounting to 140,769 thousand SIT, by the consolidated capital adjustment amounting to 41,362 thousand SIT, and by subsequently enforced decrease in corporate income tax amounting to 73,925 thousand SIT.

Transfers within capital result from the allocation of the net profit or loss from previous periods and from the transfer of net profit or loss for the financial year among other revenue and statutory reserves.

Transfers from the capital result from the dividend payout amounting to 4,055,940 thousand SIT, from the participation of the parent's Supervisory Board in the profit amounting to 50,340 thousand SIT (in compliance with the decision adopted by the annual meeting), of which the participation of non-owners amounted to 26,931 thousand SIT and dividends payable to minority owners to 22,319 thousand SIT.

Within short-term liabilities related to the profit distribution, the amount of 111,183 thousand SIT is stated as outstanding dividends payable under previous annual meetings of Krka.

- **Share capital**

Krka's share capital consists of 3,542,612 ordinary registered shares at par value of 4,000 SIT. One class of shares is considered, hence this represents also the weighted average number of ordinary shares. The first and only issue of shares was carried out in 1995.

Net profit per share amounts to 4,129.91 SIT. The calculation takes into account the total number of shares issued by the controlling company.

- **Capital reserves**

In the process of ownership transformation, Krka formed reserves in conformity with the regulations effective at that time. As at 31 December 2002, their revaluation was recorded in the amount of 2,926,164 thousand SIT. A part of these reserves that were formed from profit amounts to 396,632 thousand SIT and is recorded in the balance sheet under "other revenue reserves". The remaining part of reserves, formed on the basis of a special regulation and not profit, amounts to 2,529,532 thousand SIT and is recorded in the balance sheet under "capital reserves". The latter were in 2002 increased by 7,585 thousand SIT and in 2003 by 9,771 thousand SIT e.g. the difference between the book value of own shares and their value on disposal. In 2002 capital reserves further increased by the value of disposed own shares amounting to 22,768 thousand SIT, and by 22,079 thousand SIT in 2003.

- **Revenue reserves**

Legal reserves

The Company formed legal provisions in the amount of 10% of its share capital. As at the year-end, the value of reserves together with their revaluation amounted to 3,592,196 thousand SIT.

Reserves for own shares

As at 31 December 2004, own shares include 162,662 of Krka's shares. In 2004, the number of own shares remained unchanged. As of the balance sheet date, the own shares' par value was recorded at 650,648 thousand SIT or 4.6% of the share capital's value.

The revaluation of own shares as at 31 December 2004 took into account the market value as of 29 December 2001, namely 28,711.56 SIT. On the last trading day of 30 December 2004, the quotation per share amounted to 84,482 SIT, which is 181% higher from the carrying value (30,039 SIT). Accordingly the fair value of own shares amounts to 13,742,011 thousand SIT.

Other revenue reserves

Part of the accumulated profit of 2003 amounting to 4,959,641 thousand SIT was allocated to revenue reserves, in compliance with a resolution of the annual meeting adopted on 1 July 2004.

- **Net profit or loss from previous periods**

Net profit from previous periods is recorded in the amount of 684,324 thousand SIT and includes net profits and losses of all companies in the Group.

- **Net profit or loss for the financial year**

In 2004, the Krka Group generated a profit in the amount of 14,630,663 thousand SIT, of which 4,500,000 thousand SIT was allocated to other revenue reserves in accordance with the resolution of the Management and Supervisory Board, 500,000 thousand SIT was allocated to statutory reserves and 9,630,663 thousand SIT was included in the item of net profit for the financial year.

- **Capital revaluation adjustments**

The general capital revaluation adjustment refers to previous periods (revaluation adjustment of share capital).

As of the balance sheet date, the specific capital revaluation adjustment is recorded at 305,137 thousand SIT and represents mainly profit defined as a successful hedging tool based on carried out financial instruments.

- **Minority owners' capital**

The major part (1,977,540 thousand SIT) refers to the minority owners' capital of the company Krka – Zdravilišče Strunjan, in which the subsidiary Krka Zdravilišča holds a 51% share.

3.6.1.9 Provisions 12,204,335 thousand SIT

in thousand SIT

	Balance as at 31 Dec 2003	Formation	Utilisation and reversal	Balance as at 31 Dec 2004
Other provisions				
– for lawsuits	13,029,784	2,475,589	3,741,360	11,764,013
– for ecological restoration	202,112	0	41,088	161,024
– from donations received	235,656	0	12,887	222,769
– others	45,307	26,336	15,114	56,529
Total	**13,512,859**	**2,501,925**	**3,810,449**	**12,204,335**

The major part of provisions refers to the parent company in connection with lawsuits. These provisions amounted to 11,763,665 thousand SIT and were formed for lawsuits on alleged patent infringements in connection with drugs for cardiovascular diseases. In 2004, the controlling company eliminated provisions in the amount of 3,736,805 thousand SIT that were formed for the lawsuits on enalapril in Slovenia. Furthermore, additional provisions were formed in the amount of 2,471,633 thousand SIT for other outstanding lawsuits on alleged patent infringements in connection with drugs for cardiovascular diseases.

Provisions for ecological restoration and provisions from donations received were fully utilised, whereby they are decreased by accumulated depreciation of fixed assets, for which provisions were formed. The depreciation amount is recorded among the item of utilisation.

In addition to the lawsuits regarding drugs for cardiovascular diseases, the parent company has another outstanding lawsuit in the field of intellectual property but not relating to medicinal products. Considering the course of action, the Company may face an outflow of funds although the amount of the upcoming liability cannot be reliably assessed. Nevertheless, the possible liability shall not have a significant impact on the operating result according to Company's estimations.

3.6.1.10 Long-term financial and operating liabilities 14,596,143 thousand SIT

in thousand SIT

	31 Dec 2004	31 Dec 2003
Long-term financial liabilities to banks	14,509,441	5,699,259
– long-term loans from Slovenian banks	11,847,392	2,733,114
– long-term loans from foreign banks	2,662,049	2,966,145
Long-term financial and operating liabilities to others	86,702	122,036
Total	**14,596,143**	**5,821,295**

- **Long-term financial liabilities to banks**

As at the year-end the controlling company recorded six long-term loans, while the subsidiary Krka Zdravilišča one loan. The loans are extended mostly in euros and dollars, for a period of seven years, and earmarked for financing of investments and current assets. Long-term loans are neither secured with mortgages nor with banks guarantees. The Company issued bills of exchange for some of the loans and they are recorded among off balance sheet items.

In 2004, the Company raised three new long-term euro-denominated loans, one from a Slovenian bank and two from a foreign bank.

3.6.1.11 Short-term financial and operating liabilities 19,501,277 thousand SIT

in thousand SIT

	31 Dec 2004	31 Dec 2003
Short-term financial liabilities to banks	2,255,518	13,433,026
Short-term operating liabilities from advances	603,733	243,439
Short-term trade payables	8,456,579	9,872,493
Short-term financial and operating liabilities to other entities	8,185,447	6,786,905
Total	**19,501,277**	**30,335,863**

Short-term loans from banks are not secured with mortgage nor a bank guarantee. The Company issued bills of exchange for the loans and they are recorded among off balance sheet items.

Loans are raised for the period of 6 months, an indefinite period of time, or as callable loans.

89% of short-term financial and operating liabilities to others refer to the controlling Company's liabilities, of which to short-term loans from Slovenian companies (3,009,395 thousand SIT), to payables to employees (2,159,970 thousand SIT), and to payables to the state (1,845,960 thousand SIT).

3.6.1.12 Accrued costs (expenses) and deferred revenues 1,496,639 thousand SIT

in thousand SIT

	31 Dec 2004	31 Dec 2003
Short-term deferred revenues	942,845	501,745
Short-term accrued costs (expenses)	553,794	555,690
Total	**1,496,639**	**1,057,435**

3.6.1.13 Off balance sheet items 19,289,689 thousand SIT

in thousand SIT

	31 Dec 2004	31 Dec 2003
Bills of exchange issued as collateral for loans raised by Krka	13,552,252	13,121,478
Guarantees given to subsidiaries for raised loans	2,728,929	3,422,001
Other guarantees given	781,040	464,312
Others	2,227,468	1,445,708
Total	**19,289,689**	**18,453,499**

3.6.2 Consolidated income statement

The income statement is prepared in terms of type or revenues and expenses. Additionally, cost items are also presented in terms of operating units based on cost accounting data.

Cost items in terms of operating units **100,290,734 thousand SIT**

in thousand SIT

	2004	2003
Production cost of goods sold	50,160,744	44,005,862
Development cost	8,372,923	7,327,919
Selling expense	29,951,077	22,071,244
General and administrative expense	11,805,991	9,617,140
Total	**100,290,734**	**83,022,165**

3.6.2.1 Net sales 113,317,141 thousand SIT

Net sales generated on the domestic market are recorded at 22%, whereas 78% of net sales were generated on the foreign market.

- **Net sales by business segments**

in thousand SIT

	2004	2003
Human health products	100,155,041	82,910,643
- prescription pharmaceuticals	87,704,077	72,043,061
- self-medication products	12,450,964	10,867,582
Animal health products	4,133,374	4,081,782
Cosmetic products	2,884,239	4,111,348
Health resorts	5,965,995	5,316,586
Other	178,492	328,381
Total	**113,317,141**	**96,748,740**

In 2004, revenues generated by the subsidiary in Ireland were included in the section “prescription pharmaceuticals”. Accordingly, the data for 2003 was adjusted with reference to revenues of the aforesaid company (513,320 thousand SIT) were recorded in the section “Other”.

- **Net sales by geographical segments**

in thousand SIT

	2004	2003
Slovenia	24,453,665	23,172,705
South-East Europe	20,397,488	18,859,152
East Europe	22,161,692	19,938,385
Central Europe	24,860,693	20,664,683
West Europe and Overseas Markets	21,443,603	14,113,815
Total	**113,317,141**	**96,748,740**

Since 2004, the sales to Lithuania, Latvia and Estonia are stated within the Central Europe Region and no longer under East Europe. Hence, the data for 2003 have been adjusted appropriately. In 2003, the Group's sales of products to these countries amounted to 2,352,452 thousand SIT.

3.6.2.2 Other operating revenues — 4,319,114 thousand SIT

in thousand SIT

	2004	2003
Utilisation and reversal of long-term provisions (Note 3.6.1.9)	3,846,461	113,075
Other income-related revenues	186,269	151,636
Operating revenues from revaluation	286,384	443,966
Total	**4,319,114**	**708,678**

3.6.2.3 Costs of goods, materials and services — 50,219,204 thousand SIT

in thousand SIT

	2004	2003
Cost of goods and materials sold and cost of materials used	29,499,774	30,195,748
Cost of services	20,719,430	17,936,796
Total	**50,219,204**	**48,132,544**

Compared to the previous year, the cost of goods and materials sold and cost of materials used increased by 4%. The respective increase is also a result of the negative change in inventories of finished products and work-in-process.

- **Cost of goods and materials sold and cost of materials used**

in thousand SIT

	2004	2003
Cost of basic materials and cost of goods sold	24,771,964	25,891,275
Cost of energy supply	2,376,483	1,993,924
Other cost of materials	2,351,327	2,310,548
Total	**29,499,774**	**30,195,748**

Other cost of materials comprises cost of spare parts and materials for maintenance of fixed assets, cost of office stationary and trade magazines, and other cost of materials (analysis, advertising).

- **Cost of services**

in thousand SIT

	2004	2003
Costs of fairs, advertising and promotion	7,484,683	6,844,490
Costs of professional services	3,380,986	3,240,308
Cost of maintenance	2,231,102	1,629,603
Cost of transport services	1,378,943	1,249,098
Refund of work-related expenses	1,094,295	990,147
Cost of services performed by natural persons that do not perform a registered business activity, including the associated cost	1,723,918	1,075,719
Other cost of services	3,425,502	2,907,432
Total	**20,719,430**	**17,936,796**

3.6.2.4 Labour cost — 31,455,468 thousand SIT

in thousand SIT

	2004	2003
Gross salaries, wages, and continued pay	22,855,851	20,368,703
Social security contributions and payroll tax	5,793,892	5,117,426
Other labour cost	2,805,725	1,844,465
Total	**31,455,468**	**27,330,594**

The major part of labour cost or 84% refer to the controlling company (26,359,527 thousand SIT), while 16% to subsidiaries (5,095,941 thousand SIT). Other labour cost in 2004 include vacation bonus, travel allowance, termination pay, tenure awards, and some other repayments to employees.

3.6.2.5 Amortisation/depreciation expense — 12,815,640 thousand SIT

- **Amortisation/depreciation**

in thousand SIT

	2004	2003
Amortisation of intangible fixed assets	613,415	375,498
Depreciation of tangible fixed assets	10,449,542	9,120,457
Operating expenses from revaluation of tangible fixed assets	495,829	82,377
Total	**11,558,786**	**9,578,332**

- **Operating expenses from revaluation of current assets**

in thousand SIT

	2004	2003
Allowances for inventories	932,442	744,874
Allowances for receivables	324,412	231,616
Other	0	110,000
Total	**1,256,854**	**1,086,490**

Allowances for inventories of materials, goods, products and work-in-process were formed for the inventories ranked as questionable items, non-moving, expired sell-by date or perishable goods.

3.6.2.6 Other operating expenses — 4,287,478 thousand SIT

in thousand SIT

	2004	2003
Environmental levies	302,150	314,228
Donations, aids, co-financing	523,180	472,475
Scholarships and rewards to pupils and students	31,131	35,284
Fiscal charges irrespective of operating results	543,584	477,919
Formation of provisions	2,471,633	0
Other costs	415,800	333,604
Total	**4,287,478**	**1,633,510**

3.6.2.7 Financial revenues 3,355,646 thousand SIT

in thousand SIT

	2004	2003
Financial revenues from shares	623,315	57,204
Financial revenues from long-term receivables	353,692	1,905,103
Financial revenues from short-term receivables	2,378,639	1,293,948
Total	**3,355,646**	**3,256,255**

In 2004, the Group's financial revenues from long-term receivables refer mainly to revenues of the controlling company. As regards payments and revaluation of long-term raised and extended loans, the value of exchange difference is recorded at 314,409 thousand SIT. Interest revenues from long-term loans amount to 28,222 thousand SIT.

Compared to the previous year, Krka Group's financial revenues from short-term receivables increased by 84%. The increase is based mainly on exchange gains, which amounted to 2,167,244 thousand SIT.

3.6.2.8 Financial expenses 3,323,750 thousand SIT

in thousand SIT

	2004	2003
Financial expenses for long- and short-term investment write-offs	628,442	188,376
– financial expenses for revaluation of investments in Group companies	205,891	0
– financial expenses for revaluation of investments in associates	0	13,388
– other financial expenses for revaluation	422,551	174,988
Other interest expenses and financial expenses for other liabilities	2,695,308	5,199,051
Total	**3,323,750**	**5,387,427**

Other interest expenses and financial expenses for other liabilities include mostly exchange losses in the amount of 1,607,009 thousand SIT, incurred in Krka Group upon payments and revaluation receivables and liabilities. The rest in the amount of 1,088,299 thousand SIT relates to the controlling company in connection with the interest from short-term and long-term loans raised.

3.6.2.9 Income tax 2,878,183 thousand SIT

In addition to the tax paid and accounted for in accordance with the legislation of countries in which the Group companies appear, the Group's income tax includes also the impact of deferred taxes, which relate to the adjusting of subsidiaries' financial statements (prepared in accordance with the local legislation) to the Group's accounting policies.

3.6.2.10 Net profit for the financial year 14,660,355 thousand SIT

in thousand SIT

	2004	2003
Profit or loss from ordinary activities	17,422,366	12,308,737
Profit or loss from extraordinary activities	116,172	90,572
Net profit or loss for the financial year	**14,660,355**	**10,562,846**

The net profit for 2004 shows an increase of 39% over the previous year's figures, and a 4% increase compared to the parent Company's result. The relation between financial expenses and financial revenues, which was rather positive and compared to previous year also more favourable by 2,163,068 thousand SIT, particularly influenced this year's result.

The minority owners' share in the net profit for 2004 amounts to 29,692 thousand SIT.

If the capital would be revalued by the growth rate of the euro exchange rate (1.289%), profit or loss for the period would have been lower by 1,223,483 thousand SIT in 2004. If capital had been revalued by the cost of living index (103.2%), profit or loss for the period would have been lower by 3,045,764 thousand SIT.

3.7 General information and other disclosures

Data on the controlling company

Krka, tovarna zdravil, d. d., Novo mesto, Šmarješka cesta 6, 8501 Novo mesto, Slovenia is the controlling company within the Krka Group. The Annual Report of Krka and the Consolidated Annual Report of the Krka Group are available for review at the Company's registered seat and the web site www.krka.si.

Objects of the Company

Business operations of the Krka Group are mainly centred upon pharmaceutical and chemical activities, which, in addition to the production and sale of prescription pharmaceuticals and self-medication products, also include the production and sale of animal health products and cosmetic products, as well as sale of tourism and health resort services.

Employees

As of the balance sheet date, the Krka Group employed 4781 staff; 3526 of those in Slovenia and 1255 in companies and representative offices abroad.

Average number and breakdown of employees by educational levels in 2004 compared to 2003

	Krka Group			
	2004		2003	
Educational level	Headcount	Share (in %)	Headcount	Share (in %)
PhD	47	1.0	43	1.0
MSc	132	2.8	124	2.8
University education	1544	33.0	1314	29.7
Higher professional education	139	3.0	113	2.5
Vocational college education	211	4.5	216	4.9
Secondary school education	1072	22.9	1044	23.6
Skilled workers	1248	26.7	1270	28.7
Unskilled workers	285	6.1	300	6.8
Total (average for the period)	**4678**	**100.0**	**4424**	**100.0**

Total amount of receipts that groups of persons received in the financial year for performing their functions or duties in conformity with Article 253 of the Companies Act

in thousand SIT

GROUPS OF PERSONS AS PER COMPANIES ACT	Total receipts	Hereof participation in profit according to the annual meeting resolution
Members of the Management Board	721,577	0
Members of the Supervisory Board of the parent company and Supervisory Boards of subsidiaries	71,210	47,631
Persons employed under individual employment contracts	3,699,697	0
Total	**4,492,484**	**47,631**

Amounts stated are gross.

The receipts of the Management Board members include salaries and wages, fringe benefits, holiday allowance, any other receipts, and refund of expenses. The receipts of the parent Company's Supervisory Board members include remuneration for the tasks performed within the Supervisory Board. Receipts of persons employed under individual employment contracts include salaries and wages, fringe benefits, holiday allowance, any other receipts (tenure awards), and refund of expenses.

Receipts of the subsidiary's Supervisory Board members, who are also members of the parent Company's Management Board and thus have individual employment contracts, include solely remuneration for the tasks performed within the Supervisory Boards.

Data on loans granted by the Company to above-mentioned persons

in thousand SIT

GROUPS OF PERSONS AS PER THE COMPANIES ACT	Advances and loans as at 31 Dec 2004	Repayments in 2004
Members of the Management Board	5,795	1,120
Members of the Supervisory Board of the parent company and Supervisory Boards of subsidiaries	2,554	594
Persons employed under individual employment contracts	109,268	17,688
Total	**117,617**	**19,402**

Loans granted represent mainly housing loans; they are euro-denominated and bear interest at 3% p.a.

3.8 Ratios

	2004	2003
1. Equity financing rate: equity / liabilities (in broader sense)	0.690	0.653
2. Long-term financing rate: equity + provisions + long-term liabilities / liabilities (in broader sense)	0.864	0.785
3. Operating fixed assets rate: fixed assets (at carrying amount) / assets	0.608	0.583
4. Long-term investment rate: fixed assets (at carrying amount) + long-term investments + long-term operating receivables / assets	0.654	0.628
5. Equity to operating fixed assets: equity / fixed operating assets (at carrying amount)	1.134	1.121
6. Acid test ratio: short-term investments + cash / short-term liabilities	0.239	0.100
7. Quick ratio: short-term investments + cash + short-term receivables / short-term liabilities	1.451	0.945
8. Current ratio: inventories + short-term investments + cash + short-term receivables / short-term liabilities	2.485	1.701
9. Operating efficiency ratio: operating revenues / operating expenses	1.173	1.174
10. Net return on equity ratio: net profit for the financial year / average equity (less net operating result for the reporting year)	0.156	0.121
11. Dividends to share capital ratio*: total dividends paid in the financial year / average share capital	0.290	0.250

* ratio refers to the controlling company

3.9 Appendix

3.9.1 Consolidated balance sheet as at 31 December 2004 – expanded version pursuant to SAS

in thousand SIT

	31 Dec 2004	31 Dec 2003
ASSETS	**154,213,994**	**146,349,740**
A. Fixed assets	**104,738,514**	**94,216,549**
I. Intangible fixed assets	4,674,953	2,575,488
1. Deferred operating cost	729,393	861,337
3. Concessions, patents, licences, trademarks, and similar rights and assets	3,945,560	1,714,151
II. Tangible fixed assets	93,800,670	85,268,878
1. Land and buildings	58,418,333	57,418,286
a) Land	5,064,126	4,820,029
b) Buildings	53,354,207	52,598,257
2. Manufacturing plant and equipment	23,095,599	17,582,408
3. Other plant and equipment	2,757,196	2,912,381
4. Fixed assets being acquired	9,529,542	7,355,803
a) Advances for tangible fixed assets	1,384,168	226,870
b) Tangible fixed assets in course of construction	8,145,374	7,128,933
III. Long-term investments	6,262,891	6,372,183
1. Interests in Group companies	0	0
3. Interests in associates	122,532	120,256
5. Other long-term shares	537,849	684,831
6. Other long-term receivables from investments	932,230	896,816
7. Own shares	4,670,280	4,670,280
B. Current assets	**49,215,850**	**51,938,164**
I. Inventories	20,162,766	22,938,944
1. Material	6,233,168	6,338,292
2. Work in progress	3,769,188	4,256,370
3. Products and merchandise	10,129,924	12,344,222
4. Advances for inventories	30,486	60
II. Operating receivables	24,398,187	25,973,585
a) Long-term operating receivables	747,046	324,287
4. Long-term operating receivables due from other entities	747,046	324,287
b) Short-term operating receivables	23,651,141	25,649,298
1. Short-term trade receivables	22,022,442	22,663,121
3. Short-term receivables due from associates	5	30,625
4. Short-term receivables due from other entities	1,628,694	2,948,545
5. Short-term called-up capital unpaid	0	7,007
III. Short-term investments	1,813,800	1,070,295
4. Short-term investments in other entities	1,813,800	1,070,295
IV. Cash in bank, cheques and cash in hand	2,841,097	1,955,340
C. Deferred costs (expenses) and accrued revenues	**259,630**	**195,027**
OFF BALANCE SHEET ASSETS	19,289,689	18,453,499

in thousand SIT

	31 Dec 2004	31 Dec 2003
LIABILITIES	**154,213,994**	**146,349,740**
A. Capital	**106,415,600**	**95,622,288**
I. Called-up capital	14,170,448	14,170,448
1. Share capital	14,170,448	14,170,448
II. Capital reserves	2,598,736	2,598,736
III. Revenue reserves	55,230,357	47,820,808
1. Legal reserves	3,592,196	3,592,196
2. Reserves for own shares	4,670,280	4,670,280
3. Statutory reserves	1,500,000	1,000,000
4. Other revenue reserves	45,467,881	38,558,331
IV. Net profit or loss from previous periods	684,324	2,615,050
V. Net profit or loss for the financial year	9,630,663	4,511,179
VI. Capital revaluation adjustments	22,108,058	21,925,927
1. General capital revaluation adjustment	21,724,113	21,724,113
2. Specific capital revaluation adjustment	305,137	164,368
3. Consolidated capital adjustment	78,808	37,446
VII. Minority owners' capital	1,993,014	1,980,140
B. Provisions	**12,204,335**	**13,512,859**
1. Provisions for pensions and similar liabilities	19,624	37,178
3. Other provisions	12,184,711	13,475,681
C. Financial and operating liabilities	**34,097,420**	**36,157,158**
a) Long-term financial and operating liabilities	14,596,143	5,821,295
2. Long-term financial liabilities to banks	14,509,441	5,699,259
8. Long-term financial and operating liabilities to other entities	86,702	122,036
b) Short-term financial and operating liabilities	19,501,277	30,335,863
2. Short-term financial liabilities to banks	2,255,518	13,433,026
3. Short-term operating liabilities from advances	603,733	243,439
4. Short-term trade payables	8,456,579	9,872,493
8. Short-term financial and operating liabilities to other entities	8,185,447	6,786,905
D. Accrued costs (expenses) and deferred revenues	**1,496,639**	**1,057,435**
OFF BALANCE SHEET LIABILITIES	19,289,689	18,453,499

3.9.2 Consolidated income statement as at 31 December 2004 – expanded version pursuant to SAS

in thousand SIT

	2004	2003
1. Net sales	113,317,141	96,748,740
a) on domestic market	24,453,665	23,172,705
b) on foreign market	88,863,476	73,576,035
2. Change in inventories of finished goods and work in progress	-1,512,944	4,739,305
3. Capitalised own products and services	44,949	4,656
4. Other operating revenues	4,319,114	708,678
5. Cost of goods, materials and services	-50,219,204	-48,132,544
a) Cost of goods and materials sold and cost of materials used	-29,499,774	-30,195,748
b) Cost of services	-20,719,430	-17,936,796
6. Labour cost	-31,455,468	-27,330,594
a) Cost of wages and salaries	-22,855,851	-20,368,703
b) Social security cost	-5,793,892	-5,117,426
c) Other labour cost	-2,805,725	-1,844,465
7. Amortisation/depreciation expense	-12,815,640	-10,664,822
a) Amortisation/depreciation expense, and operating expenses from revaluation of intangible and tangible fixed assets	-11,558,786	-9,578,332
b) Operating expenses from revaluation of current assets	-1,256,854	-1,086,490
8. Other operating expenses	-4,287,478	-1,633,510
9. Financial revenues from shares	623,315	57,204
c) Other financial revenues from shares	623,315	57,204
10. Financial revenues from long-term receivables	353,692	1,905,103
c) Other financial revenues from long-term receivables	353,692	1,905,103
11. Financial revenues from short-term receivables	2,378,639	1,293,948
c) Other interest revenues and financial revenues from short-term receivables	2,378,639	1,293,948
12. Financial expenses for long-term and short-term investment write-offs	-628,442	-188,376
b) Financial expenses for revaluation of investments in associates	0	-13,388
c) Other financial expenses for revaluation	-628,442	-174,988
13. Interest expenses and financial expenses for other liabilities	-2,695,308	-5,199,051
c) Other interest expenses and financial expenses for other liabilities	-2,695,308	-5,199,051
15. Profit or loss from ordinary activities	**17,422,366**	**12,308,737**
16. Extraordinary revenues	141,755	135,627
17. Extraordinary expenses	-25,583	-45,055
18. Profit or loss from extraordinary activities	116,172	90,572
Profit or loss before tax	**17,538,538**	**12,399,309**
Income tax	-2,878,183	-1,836,463
21. Net profit or loss for the financial year	**14,660,355**	**10,562,846**
Minority owners' share	-29,692	-40,461
Net profit of majority owners	**14,630,663**	**10,522,385**

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